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# The Indonesian Quarterly

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- ❑ Challenges to the East Asian Community and the Moves Forward
- ❑ UN Responses to Threats to International Peace and Security

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- ❑ Some Lessons of the Democratization Process: Post Legislative and Pre-Presidential Elections

## REVIEW OF ECONOMIC DEVELOPMENT

- ❑ Not Too Bad, But Not Good Either

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- ❑ Revisiting the "Asian Values" Argument Used by Asian Political Leaders and Its Validity
- ❑ Regional Empowerment and Ethnic Conflict in North Sumatra
- ❑ The East Asian Monetary Cooperation: A Survey of Recent Progresses



CENTRE FOR STRATEGIC  
AND  
INTERNATIONAL  
STUDIES

## The Logo



To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidharta, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*", which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a memorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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## ABSTRACTS

### REVISITING THE 'ASIAN VALUES' ARGUMENT USED BY ASIAN POLITICAL LEADERS AND ITS VALIDITY

*By* C.Y. Hoon

Asia's remarkable growth over the previous decades has been rooted in the so called Asian values. Many Asian nations wish to have it both ways, namely to be modern and traditional at once, to modernize but not Westernize. Asian values is devised for the purpose of challenging "Western-style" civil and political freedoms. Asian values' argument has been partly motivated by the deep resentment against the West for its past colonialism. This article attempts to critically examine the cultural arguments and how Asian leaders have used the 'Asian values' argument as political instruments to legitimize authoritarian rule; and how implausible their argument is.

### REGIONAL EMPOWERMENT AND ETHNIC CONFLICT IN NORTH SUMATRA

*By* Budi Agustono and Timo Kivimäki

North Sumatra is close to Aceh and is in many respects similar to Indonesia's other trouble spots, the Moluccan Islands, West Kalimantan and Papua, where ethnicity also plays a role in creating social and political divides and contributing to violent mobilization. Nevertheless, the question is: Why has North Sumatra not experienced any large-scale ethnic conflict? Will this kind of conflict lurk around the next corner? How should the decentralization be implemented there in order to avoid North Sumatra becoming the 2nd Aceh. This study outlines the ethnic discursive strategies of legitimization and mobilization of pursuit of power during the centralized authoritarian regime and later during the more democratic, decentralized setting.

### THE EAST ASIAN MONETARY COOPERATION: A SURVEY OF RECENT PROGRESSES

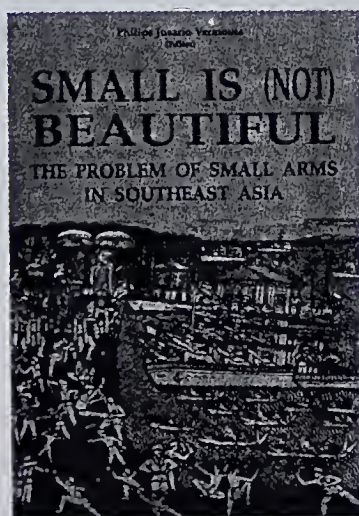
*By* Agus Eko Nugroho

Following the Asian crisis of 1997/1998 there had been a rapid development of monetary cooperation in the East Asian region. Although, the Japanese initiative



for the proposed development of the Asian Monetary Fund (AMF) seems to be favourable for the region, it gained no support and failed accordingly. By contrast, the informal arrangement such Miyazawa Plan and more recently, the Chiang Mai Initiative (CMI) of the ASEAN+3 gains much support from countries within and outside the region including the US and the world financial institution such as the IMF and the World Bank. Concerning the rapid progress of Asian monetary co-operation, the article attempts to explore recent literature about Asian monetary cooperation.

## SMALL IS (NOT) BEAUTIFUL THE PROBLEM OF SMALL ARMS IN SOUTHEAST ASIA



*Edited by:* Philips Jusario Vermonte

*Published by:* Centre for Strategic and International Studies (CSIS), Jakarta.

This problem of small arms is complex. It carries not only international, but also regional, national and even local dimensions. An accurate understanding of this issue is therefore imperative.

This book attempts to investigate the problem of small arms proliferation in Southeast Asia with special reference to Indonesia, the Philippines, and Thailand. It contains six papers that result from a collaborative research project undertaken by researchers from CSIS in Jakarta, from Chulalongkorn University in Bangkok, and from Institute for Strategic and Development Studies (ISDS) in Manila.

The publication of this book is intended to provide a more comprehensive understanding on the issue of small arms in particular and human security in general.

*Contributors:* Rizal Sukma, Edy Prasetyono, Landry Haryo Subianto, Thitinan Pongsudhirak, Herman Joseph S. Kraft, Philips J. Vermonte.

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## CURRENT EVENTS

# Challenges to the East Asian Community and the Moves Forward

*Jusuf Wanandi*

**T**HERE are many strategic developments in Asia Pacific and in its neighboring regions of South Asia and Central Asia. For instance, the normalization of relations between India and Pakistan opens a window of opportunity to creating peace and stability in the sub-continent and could prevent a real dangerous nuclear confrontation there from materializing. In the Central Asian region, the six-party Shanghai Security Cooperation Agreement provided a basis for the development of stable relations between Russia and China as well as for the involvement of some important Central Asian countries in countering terrorist activities, which is the main objective of the agreement.

For East Asia or Pacific Asia two main strategic trends will influence future peace and stability in the region, which are the key requirements for maintaining the region's economic

dynamism and growth. The first trend is the strategic presence of the US in East Asia and its future adjustments that are made imperative by the RMA (Revolution of Military Affairs) and the restructuring of the Department of Defence ways of operation.

Since World War II the US has been the dominant power in the Asia Pacific region. Its presence has provided the underpinning for the region's peace and stability both during and after the Cold War. As the only superpower, her "hegemony" is very real and is strongly felt in the region, where she has become the arbiter to maintaining peace and stability. Every country in the region, including China, recognizes her presence and her role for peace and stability.

After the Cold War was over, there was a debate in the US body politic about the peace dividend and the



future strategic role of the US in the world and in the various regions, including East Asia. To prevent instabilities the Nye program under President Clinton proposed that the 100,000 US troops in the region be maintained.

Due to changes of strategy, structure and operation of the US military and in dealing with new threats and security issues, namely global terrorism and WMD (weapons of mass destruction), the US is now more than ever militarily present in the region, although operational deployments will have to be adjusted. Consultations on these adjustments are ongoing and are needed to prevent misunderstanding on the part of her allies and friends.

The US should also maintain her interest in the economic field, particularly as the developing part of East Asia is affected by globalization. In general, all countries in the region accept the presence and role of the US, as was shown during the Iraq War, when some countries that could not openly support US policies, such as Indonesia and China, have done so with finesse.

The second strategic development in East Asia is regional community building. This has been driven mainly by economic integration of the region that began with the second wave of Japanese investments into the region in the mid 1980s. For the time being,

community building will rest on economic cooperation, which has become the region's main agenda since the financial crisis in East Asia in 1997.

One major development is in the financial field, based on the Chiang Mai Agreement, to create self-help facilities that can help prevent and overcome financial crises in the region in the future. The FTAs being negotiated between ASEAN and China and between ASEAN and Japan should be seen as a part of these efforts. In addition, a number of areas of functional cooperation, such as on SARS and the avian flu, have enhanced the region's sense of solidarity. At the intellectual level and at the level of person to person relations dramatic strides have been made between all the East Asian countries especially in the last decade.

The vision of an East Asian Community is first and foremost about achieving peace, stability and progress in East Asia. It has three main strategic objectives. *First*, to create a regional institution that can accommodate a rising China as a constructive member of the region and to enable her to develop into a full status quo power. *Second*, to assist in the normalization between China and Japan, the two major powers in the region and the two potential leaders of the East Asian Community. *Third*, to assist in alleviating the

possibility of future confrontation between the US and China when China becomes a great or super power on her own right in the next few decades. For this to happen a lot of efforts and creativity has to be mustered by the East Asians in convincing the US that this new regional entity is not against her or to limit her presence in the region for the future. Being the closest ally of the US, Japan has a pivotal role to play to make the East Asian Community acceptable to the US.

China and the US have for the time being stabilized their relationship, through cooperation in the economic field, in the fight against global terrorism, and in jointly seeking for a diplomatic resolution to the nuclear proliferation of North Korea. The successful outcome of the six party talks could become a harbinger for a North-east Asian way of solving future problems and potential conflicts in the sub-region.

China-Taiwan relations are the most critical and difficult issue in the relationship between China and the US. There appears to be a growing concern on the Chinese side that Chen Sui Bian is continuing with his efforts to make Taiwan independent by trying to win the elections for the legislative Yuan at the end of 2004 and the elections for the Constituent Assembly mid next year.

With victories in those two bodies, he can prepare for the changes of the Constitution which has been made in the mainland in the 40s to be reformed into a Taiwanese made one, which already could create a basis for Chen to move on towards some form of independent status. He also could do this with a referendum although that now has become very difficult, since he promised not do such a referendum on anything related to "independence". They also increasingly realise that they should not overreact to Chen Siu Bian's capriciousness, but instead should strengthen China's relations with other countries in the world to insure their one China policy.

Despite Taiwan's economic integration into China, and the tremendous increase in people to people's contacts (with up to 2 million Taiwanese living partly in China), there is no guarantee that the economy alone will prevent Chen's effort for independence or China's seriousness for using force if necessary. This could be a calamity to the region's stability and economic well being and therefore should be a concern for the East Asian region and the world. China is willing to give space to Taiwan as long as she is going to adhere to the greater China to which both belong.

This means that some Taiwanese scholars could be given some space in second track activities so that they



understand what the region (and the world) think about China-Taiwan relations and the one China policy, but here again there should absolutely be no tampering on the one China policy by the Taiwanese scholars. In addition, China should handle the democratic movements in Hong Kong with finesse, so long as they are not aiming at independence.

The principle of open regionalism should be adhered to by this new regional entity. This is in the region's own interest, given its dependence on the global economy. East Asia should support efforts to revitalize the APEC process, the primary Asia Pacific regional institution where the US is playing an important role. It should also convince others outside the region, especially the US, that East Asian regionalism is part of an effort towards a building bloc in support of a global regime for peace and prosperity. East Asia will cooperate with Europe and the Western Hemisphere to build such a global regime.

The EU proves a model for East Asia, but it could not be emulated since the East Asia region is much more diverse. However, some elements of EU's integration process can be implemented in East Asia.

In fact, the two main strategic trends in East Asia should not confront each other, but they should complement each other in creating

peace, stability and progress in East Asia and the wider Asia Pacific region. But for that to become a reality, relations between the two major regional powers, namely China and Japan, should be normalized and the US should be convinced that this new East Asian regional institution is not against her interest.

A lot has been written by the media about China-Japan relations, e.g., in *The Financial Times*, particularly about the ambivalence of the relationship. However, economic interdependence between the two countries have deepened and widened. This will provide the underpinning for a more normal relations in the future.

This will take time, and therefore, the idea of an East Asian Community also will move forward step by step, first in the economic field, and later in the politico-security field. ASEAN (Association of South East Asian Nations) can support the process by a readiness to transform the ASEAN + 3 (China, Japan and South Korea) cooperation into a more full-fledged East Asian cooperation and community building, which should involve some institutionalization as well.

ASEAN can support this process by getting its own house in order. In doing so ASEAN, in cooperation with South Korea, could again play an important role as the catalyst to accelerate the process of cooperating, since

the two big powers are at present not in the position to do so. Accelerated cooperation could assist in assuring that the three strategic objectives mentioned above, which are so critical important to the region, can be achieved within a reasonable time frame.

Since the Bali Concord II, announced at the ASEAN Summit of October 2003, where ASEAN leaders agreed to establish an Economic, a Security and a Socio-Cultural Community

within the next decade and a half, ASEAN has regained some credibility. Many believe that ASEAN can get its act together again after a hiatus of seven years, namely since the financial crisis of 1977.

But it is most important that ASEAN also starts to implement vigorously the vision of an ASEAN Community, because only then will ASEAN have credibility and its catalyst role in developing the East Asian Community be accepted.

## UN Responses to Threats to International Peace and Security\*

*Ramesh Thakur*

### INTRODUCTION

THE 20th century's two major international organizations were the League of Nations and the United Nations (UN). Their chronological linkage to the two world wars was not just coincidence. In both cases, people horrified by the destructiveness of modern wars decided to create institutions for avoiding a repetition of such catastrophes.

Seemingly the most significant advance from the League to the UN

was with regard to enforcement action. The UN incorporated the League proscription on the use of force for national goals, but inserted the additional prescription to use force in

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\*Paper presented to the Fourth UN-ASEAN Conference, "Conflict Prevention, Conflict Resolution and Peace Building in Southeast Asia: ASEAN Security Community and the UN", organized by Department of Foreign Affairs, Indonesia, Centre for Strategic and International Studies, Jakarta; United National Department of Political Affairs, United Nations Development Program; and ASEAN Secretariat, Jakarta, 23-25 February 2004.



support of international authority as determined by the UN. The Security Council was given the power to decide whether international peace was threatened, whether sanctions were to be imposed and, if so, the nature of the sanctions, including military force. Force, it was said, was being put to the service of law.

The UN reflects rather than creates world order. The 1990s began with hopes that the Cold War acrimony had given way to a new world order harmony. As the rivalry of the Cold War faded, so the UN role gained greater coherence and its actions gathered fresh momentum. Yet last year, the Iraq war inflicted a double damage on the UN and called into question its role, relevance, credibility and effectiveness as never before. In countries that went to war, the UN was attacked for failing to stand up to the threat of the world's most destructive weapons falling into the hands of one of the world's most dangerous dictators. Among many people who strongly opposed the war, the UN was criticized for failing to stop the war and punish the aggressors. Thus Iraq confronted it with an impossible choice between irrelevance if it did not authorize war and complicity if it did.

## THE UN SCHEMA

The Charter framework for conflict prevention and resolution begins

with Chapter 7 on the pacific settlement of disputes that sets forth a series of articles dealing with mediation arbitration, adjudication, good offices etc. But its scope is circumscribed by the voluntary nature of resolutions: they have no legality binding effect. It is worth highlighting—for this piece of good news has not really registered on the international consciousness—that as part of the evolving ASEAN security community, some ASEAN countries (Indonesia and Malaysia, Singapore and Malaysia) have preferred to refer their territorial disputes to the World Court rather than escalate it or go to war. The UN was founded in the belief that sometimes, it may be necessary to use force against aggressor nations. This finds expression in Chapter 7, the collective enforcement chapter of the UN Charter. Chapter 8 also sets out the relationship between the UN-centered collective security stem and the reality of many regional organizations for ensuring the security of allies within particular regions.

The disarmament provisions of the UN Charter were downgraded in comparison to the League, for the interwar experience convinced many that weapons per se are not the problem. Rather, the threat lies in weapons in the wrong hands, and not enough of them in time in the right hands.

With regard to the organs of the UN, the Security Council was given

a more sharply focused security role, the UN General Assembly (UNGA) retains a residual responsibility for peace and security, the growing importance of social and economic issues saw the creation of a new organ, ECOSOC, and the World Court continued virtually unchanged.

As it turned out, for a number of reasons, collective security remained as elusive as ever. Instead, the characteristic UN use of military troops took the form of peacekeeping operations, which conceptually and operationally fell somewhere in between Chapters 6 and 7: chapter 6.5, in Secretary General (SG) Dag Hammarskjöld's memorable comment. Since the 1990s we have seen many transformations in the number, nature and tasks of PKOs as many of the traditional tenets of classical peacekeeping were overtaken by the complexity of modern humanitarian crises and emergencies.

The larger question thrown up by the Iraq war is the sort of world we wish to live in, and whether it should be a world based on the rule of law or the law of the jungle — which the lion might welcome, but the other creatures may be less enthusiastic. Because of its challenge to the normative architecture of world order, the war had the potential to reshape the bases of world order in fundamental, profound and long lasting ways.

The Iraq crisis last year brought to a head a number of other developments. The basis of world order with the UN at the centre of a system of Global governance has come under increasing strain. The reasons for this are among others: (1) The inflated expectations of what the UN can do; (2) The growing disconnect between the threats to peace and security lying increasingly within rather than between states; (3) The growing gravity of threats rooted in non-state actors, including but not limited to the threat of international terrorism; (4) The growing salience of WMD that, in their reach and destructiveness, challenge the basis of the territorial state; and, (5) the growing disparity between the power of the US and that of all other UN Member States.

### **Inflated Expectations**

The UN is the symbol of utopia, i.e., a mythical ideal world that can never be attained nor ever abandoned as an aspiration. Much of the disenchantment with the UN cannot be understood other than in the terms: people expect and demand the world from us while governments are prepared to give us neither the requisite resources nor authority.

The political science literature informs US of the fallacy of the rational actor model of decision making. This is even more true of the UN. The or-



ganization is not a unitary actor. There is no such thing as the United Nations. Instead, there are several UNs. UNSC is the geopolitical centre of gravity of the UN system. The UNGA is the normative centre of gravity. The SG is the personification of the international interest and file custodian of the world conscience. The ICJ is the legal centre of gravity, etc. The political masters of the UN system are Member States, not its officials, not even the SG.

Thus it was not the UN as such, as an independent, autonomous, unified actor, that refused to authorize war against Saddam Hussein. Rather, it was the UNSC. And this refusal was the result not of lack of courage of conviction by UN officials as international civil servants, but a failure of bilateral US diplomacy (vis-a-vis France, Germany, Russia, Chile, Mexico etc.) in a multilateral forum. That is, the UN is a political organization, and its decisions are the result of political bargaining and accommodation based on power equations and competing national interests. The hope is that the international interests will somehow emerge from this interplay of hard negotiations among Member States.

### The Decline of Interstate Wars

AS is well-known by now, there has been a dramatic shift in the bal-

ance between interstate wars and internal armed conflicts. (Although we should bear in mind that many so-called intrastate conflicts are deeply embedded in regional conflict formations and regional insecurity complexes, with transborder linkages on many dimensions of predation, oppression, atrocities, identity, etc.) There has been an equally dramatic shift in the proportion of victims between uniformed soldiers and civilians. The UN has the primary responsibility for the maintenance of *international* peace and security, but is an organization constructed on the founding, bedrock principle of state sovereignty. If the threats to world peace are primarily rooted within states, and the members of the UN are sovereign states, how can the organization manage these threats to fulfill its primary mandate?

ICISS tried to resolve this dilemma through the innovative concept of the responsibility to protect, which reaffirmed rather than dilute the central role of the UNSC in a rapidly changing world.

### Non-state Actors and International Terrorism

The number of non-state actors has proliferated even faster than state actors since 1945 when the UN was founded. Civil society has found a receptive audience at the UN, though

not without problems. But there has also been a proliferation of uncivil society with respect to trans-border crime, human and drug trafficking, money laundering and, of course, terrorism.

We all want to wage war on terrorism but cannot even agree on its definition. If a definition cannot be agreed within the UN forum, the likelihood of a broad acceptance of any working definition of terrorism in the world at large would be very slim.

The final line of defense against terrorism is preventive security measures in countries that are the targets of attack. This includes robust counter-terrorism intelligence and surveillance efforts by the law enforcement, national security, border control, and financial regulatory and surveillance authorities. There is little scope for substantial UN involvement in this regard. Programs of technical assistance would be better managed bilaterally, although in some cases the political cover of the UN may make such assistance more palatable to domestic constituencies.

Efforts to build effective defenses against international terrorism should focus first on countries that harbor or host individuals and groups advocating, financing arming and training terrorists. This is where the export of terror can be stopped or contained most effectively at least cost. This re-

quires both capacity-building in those countries that lack institutional resilience in their security sectors to tackle terrorist cells; and mustering political will in other countries that may have the capacity but lack the determination to root out cells from their midst.

Fragile states with frail institutions are the soft underbelly for global terrorism. Terrorists take advantage of porous borders, weak and corrupt law-enforcement forces and limp judicial systems. The solution lies in engagement with narrowcast "nation building" in which the UN—not the least the DPA and the UNDP—has long experience, institutional expertise and international legitimacy.

The second and related task is to coax and coerce regimes that have been tolerant of terrorist cells to confront the common menace instead. There must also be bilateral and multilateral regimes for regulating and controlling the in-border production, mid storage, and cross-border transfer, of terrorism-sensitive materials, skills and technology. This would best be accomplished with concerted encouragement and pressure from bilaterally relevant actors and the UN, in the name and with the full weight of the international community. Similar partnerships are required in tackling the root causes of terrorism.

Democracy legitimizes the struggle for power, while its denial drives



dissent underground. Authoritarian governments provoke grievance, whereas representative governments provide safety valves for venting collective anger. The rule of law mediates relations between the rulers and the citizens, the rich and the poor, the strong and the weak. The UN is the single best forum for building global respect for democracy, good governance and the rule of law.

Group grievance rooted in the collective injustice against ethnic and religious sects generates anger and armed resistance as the weaker resort for their comparative advantages in so-called asymmetrical warfare. If peace and stability are to rest on secure and stable foundations, then inter-group relations must be based on justice and equity as well as power and wealth. The UN is the ultimate of inter-group relations based on equality, law and justice that temper the raw of power and money. It is the forum for mediating power asymmetries.

The UN is also the best forum for redoubled efforts to resolve longstanding and intractable conflicts that have spawned generations of radicalized. Terrorism also highlights the development-security nexus. Poverty and destitution can produce feelings of desperation and alienation and thus be the incubator of terrorism. Poverty also detracts from state capacity to provide universal education through the public sector, resulting in

many children gig to private religious institutions and sometimes being schooled in the tenets of fundamentalist extremism. The leaders of terrorist actions, like leaders in most walks of life, tend to come from the affluent and well educated ranks, but they find ready recruits as foot soldiers among the poor, illiterate, unemployed and marginalized groups. Poverty elimination is both the biggest goal and the biggest challenge for the UN.

Finally, a genuine dialogue among civilizations will help to promote intercultural harmony and defuse hate-based terrorism. Instead of viewing terrorism through the lens of a clash of civilizations, we should see it as a war on civilization (an assault on our values, freedoms and common humanity) and a war for civilization (the defense of those values and freedoms). The UN is both the symbolic meeting place of all civilizations, and the most readily accepted form for promoting and engaging the dialogue among civilizations.

## **Weapons of Mass Destruction (WMD)**

The effort to contain the threat posed by WMD has rested on mutually reinforcing pillars: norms, treaties (regimes), and compliance through coercion, regard to norms, the UN is the single most authoritative forum standards of state behavior. Its standard setting role is irreplaceable. This

is why the international community adopted resolutions at the UN to censure the nuclear test by India and Pakistan in 1998, even though neither country had broken any treaties that they had signed.

There is a fairly general feeling around the world that the UN has dysfunctional and moribund for negotiating arms control and disarmament agreements. Most of the key agreements have been negotiated outside the UN, not just the NPT, but also regional nuclear-weapon-free zones (including the Southeast Asian one) and the Ottawa Convention banning antipersonnel landmines. Nevertheless ideas behind many of these agreements were initially funneled through system. And, even when negotiated outside the UN framework, many treaties subsequently submitted to the UN for formal endorsement. This may not have much bearing on their legal standing, but does enhance their moral weight.

Similarly, as we witnessed with respect to the stated justification for the Iraq war, there is no substitute for the UN for authorizing international enforcement action that is accepted as just and legitimate by most governments and people of the world.

### **United Nations (UN) and The United States (US)**

The disparity between the US and all other countries poses a fundamental

challenge to the Westphalian fiction of sovereign states equal in status, capacity and legitimacy. The central irony and dilemma are that the US is the most powerful country in the world and yet feels more vulnerable than ever before. This has changed its perception of its own national security and thereby may transform the global security architecture.

There is a strategic disconnect between the distribution of political, economic and military power in the "real" world, and the distribution of decision-making authority in the UN system. Americans are fiercely resistant to attempts at any "Gulliverization" of the US, failing to see why they should agree being tied down by multilateral fetters. Their rejection of many multilateral regimes, from international criminal courts to nuclear test bans, the Ottawa Treaty and even the Kyoto Protocol, is rooted in exceptionalism and triumphalism. Because it defines itself as a virtuous power, some seem to believe that they can exempt the US from as many regimes as often, whenever, for as long as they like — while holding all else to these regimes. Thus the NPT's nonproliferation obligation will be enforced through compulsory and even preemptive disarmament, but not its Article 6 disarmament obligations. And the will of the UN will be enforced against recalcitrant regimes like Saddam's, if necessary in defiance of the UN.



The US has hard and soft power; the UN only has soft authority. Legitimacy is the conceptual rod that connects power to authority. Progress towards international civilization requires that Member States' power be harnessed to UN authority, so that force is indeed put to the service of law. By their separation over Iraq, the US and the UN provoked a double crisis of legitimacy about each other: of American power and UN authority. The certainty of moral clarity put the US administration on a course that seriously eroded its moral authority in the exercise of its power in the world. The lack of a sense of moral clarity—values that it espouses and principles in defense of which it is prepared to stand up and be counted—diminished the UN's moral authority.

## SOME REFLECTIONS ON IRAQ

The worst act of domestic criminal behavior by a government is large-scale killings of its own people; the worst act of international criminal behavior, to attack and invade another country. The history of the 20th century is the first part of a story of the twin-track approach to tame, through a series of nonnative, legislative and international fetters, both impulses to armed criminality by states. Cumulatively, these attempted to translate an increasingly internationalized human conscience and a growing sense of international community into a new normative architecture of world or-

der. Saddam Hussein's record of brutality was a taunting reminder of the distance yet to be traversed before we reach the first goal of eradicating extreme domestic state criminality. Saddam's ouster and capture by unilateral force of arms is a daunting setback to the effort to criminalize wars of choice as an instrument of state policy. When countries want the UN to be effective, they always mean against others, not against themselves.

## CONCLUSION

In response in particular to the Iraq crisis, the SG has set up his high-level panel to examine today's threats and the best means of organizing collective action through the UN for managing them.

We live in a world of infinite diversity. In such a world, problems that are global in scope require multilateral solutions. This paper has shown, by appropriate illustrations rather than an exhaustive and comprehensive catalogue, why and how the UN remains the forum of choice for collective action to resolve pressing global problems. It still stands as the symbol of a shared vision for a just, peaceful and prosperous world.

We have witnessed a dramatic democratization of the instruments of violence that has suddenly brought a sense of vulnerability to the most powerful political entity since im-

perial Rome. We have seen the rapid emergence, proliferation and transmutation of uncivil society. And we are witnessing the globalization of threats from sectors and actors well beyond the traditional parameters.

In such a world, the UN and its Member States—even the most powerful Member State—need each other. In Iraq, for example, the need of the hour is for the UN and the US to defeat terrorism, not contain and check each other, jointly and collectively to stabilize the country and the region, and promote democracy and the rule of law in Iraq, the Middle East and the world.

There will be times when the will of the international community must be backed up by the credible threat and use of force. The will to use force will weaken if it is used recklessly, prematurely, unwisely and hastily. The UN has no independent military capacity. As the Brahimi Panel reported, the UN is not good at waging wars. It is difficult to visualize any significant use of military force for international purposes without US leadership, support and active participation.

For international enforcement action to be efficient, it must be legitimate; for it to be legitimate, it must conform to international law; for it to be legal, it must be consistent with

the UN Charter. That is, the UN remains the irreplaceable font of international authority and the indispensable stamp of international legitimacy. Military victory on the battlefield in Iraq was the easy part. A UN role is necessary for securing the peace on the morning after- and victory in war is pointless without a resulting secure peace.

The UN is not the single, all-encompassing answer and solution to all the world's problems at all levels. There will have to be complementarity between, national, regional and international actors, governmental as well as nongovernmental. If the UN is incapable of self-sufficient, autonomous military action, it is also true that the organization has been very good at the slow, patient, unrelenting building of institutions to meet our political, social, economic and security needs.

In sum, the United Nations is essential for institutionalized multilateralism for underpinning and providing the framework for managing both new and old security threats. Our real choice today is between an ad hoc or rules based, unilateral or multilateral, divisive or consensual approaches and responses. The latter set of choices is likely to be the more efficient, effective and enduring; and the UN is central to the latter set of choices.



## REVIEW OF POLITICAL DEVELOPMENT

# Some Lessons of the Democratization Process: Post-Legislative and Pre-Presidential Elections

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### INTRODUCTION

**D**ESPITE intense logistic pressures and growing skepticisms over the Electoral Commission (KPU), the 2004 legislative election had been conducted nationally on 5 April 2004 without significant problems or widespread conflicts as feared earlier. The results showed slight decrease in voters-turnout, mostly caused by non-voters and technical errors, and more fragmented political parties with no real majority in place. Women's political participation has yet to see real progress, as political parties tend to circumvent women empowerment measures in spite of the 30% quota requirement.

Golkar convention and Wiranto's appointment as presidential cand-

idate were the most interesting amongst the democratic progresses Indonesia has made. Yet, such unexpected result has even fueled an anti-militarism movement amongst students, human rights activists, media and other elements of civil society — nationally and internationally.

Newcomers who stole some scenes are *Partai Keadilan Sejahtera* (PKS) and *Partai Demokrat* (PD). Both PKS and PD successfully dominated the capital's electoral districts, thus claiming the support of metropolitan urban dwellers. This unexpected result appeared to be encouraging toward the process of democratization. PKS and PD, however, still have to deliver much more if they really wish to be considered as the new locomotives of democracy in the country.

When the projection of 2004 political constellation started to take shape, even before the official results were announced, party elites had braced themselves for the presidential elections by engaging in frenzied maneuvers and multifarious coalitions. The maneuvers between major leagues have shown how narrow our elites' ways of thinking are so far, despite the relative progress in electoral procedures. None of the candidates generated clear and realistic platforms to offer to the people.

Initially, six couples applied to the KPU for presidential candidacy. However, only 5 of them were considered eligible, namely (in official order): (1) Wiranto and Solahuddin Wahid for Partai Golkar; (2) Megawati Soekarnoputri and Hasyim Muzadi for PDI-P; (3) Amien Rais and Siswono Yudhusodo for PAN; (4) Susilo Bambang Yudhoyono (SBY) and Muhammad Yusuf Kalla for PD; (5) Hamzah Haz and Agum Gumelar for PPP.

Due to the KPU's rejection toward his application, Gus Dur tried to threaten to boycott NU's votes nationwide and to sue KPU, Ministry of Health and the Indonesian Doctors Association (IDI) for 1 trillion Rupiah (US\$110 million) in nonmaterial damages. Though later he withdrew his boycott threat, Gus Dur maintained that he would not vote and remain active outside of the system.

All in all, the following electoral phase has re-confirmed the elites' lack of intention to incorporate substance in the democratization process. Despite the success with the bill of Legislative Procedures (RUU TCP3) that allows greater public participation in regulation making, civil society got the chill when security authorities announced their plan to probe into the activities of several NGOs that are critical against the government. Constructive engagement between state and society will remain problematic even as the elections pass.

## 2004 LEGISLATIVE ELECTIONS RESULTS

Despite earlier concerns over potential conflicts and few technical violations (such as, premature campaigns, money politics, minor tension between different party supporters, etc), overall, the whole legislative election process came to pass rather smoothly. No major conflict took place. General public responded rather coldly to the symbolic fiesta. Behind such cold response are general public's lack of respect over political parties and their elites, and the shift from traditional identification to a more rational one in responding to the overall campaign.

Party campaigns offered very little substance to political education. Presenting eminent figures.—from party's



presidential candidates to celebrities—or symbolic representation of the marginalized—from *bajaj* driver to street vendors—overshadowed the presentation of platforms, party mechanism and legislative functions. Instead of bringing light to public's understanding of how those candidates could actually serve the public, campaigns were reduced to sing-and-dance performances, free T-shirt and other handouts. Most agendas presented also failed to present various regional concerns even though the campaigns involved candidates at the national, provincial and municipal levels.

Another distraction that further drew attention away from the importance of substance is the technical and administrative drawbacks of KPU. By the end of March 2004, KPU got immense pressures over logistic glitches, as the commission rushed to meet technical provision deadline for election in different provinces throughout the country. Concerns over possibilities to postpone or to have a non-simultaneous election were proven invalid when actual process went on quite smoothly on 5 April 2004.

### Voters Turnouts and New Political Constellation

The April 2004 legislative elections indicated several new phenomena in the development of Indonesian de-

mocracy. *First*, voters-turnout in 2004 is the lowest turnout in Indonesian history of general elections (only 76.6%). This might be due to several administrative and technical (logistical) factors, as predicted before, rather than some political boycotting by non-voters.

*Second*, there are dramatic changes in power constellation of major political parties compared to 1999 elections. The five top major parties, namely: PDIP, Golkar Party, PKB, PPP, and PAN, suffered significant losses as indicated in Table 2. Golkar lost the least (0.98%); while PDIP the greatest (15.23%). The votes gained, however, may belong to hardcore supporters of the respective political parties as shown in Table 1.

*Third*, popular vote gain may not translate to equivalent parliamentary seat gain. For example, PKB gained more popular votes than PPP, but it got smaller number of parliamentary seats than PPP (See Table 1).

*Fourth*, most remarkable was the performance of Susilo Bambang Yudhoyono (SBY)'s PD and PKS. However, it is worth noting that considerable supports for PD were essentially sympathetic votes given to SBY, who was widely seen as being politically victimized by the regime. Referring to similar kind of sympathy expressed towards Megawati in 1999 general elections, it seems very un-

Table 1

## 2004 LEGISLATIVE ELECTION RESULTS

No.	Political Party	Rank	Votes	%	Rank	Seats	%
1.	PNI Marhaenisme	16	923.159	0.81	16	1	0.18
2.	Partai Buruh Sosial Demokrat (PBSD)	24	636.397	0.56	24	0	0
3.	Partai Bulan Bintang (PBB)	8	2.970.487	2.62	10	11	2
4.	Partai Merdeka	20	842.541	0.74	20	0	0
5.	<b>Partai Persatuan Pembangunan (PPP)</b>	4	<b>9.248.764</b>	<b>8.15</b>	3	<b>58</b>	<b>10.55</b>
6.	Partai Persatuan Demokrasi Kebangsaan (PPDK)	13	1.313.654	1.16	11	5	0.91
7.	Partai Perhimpunan Indonesia Baru (PPIB)	22	672.952	0.59	22	0	0
8.	Partai Nasional Banteng Kemerdekaan (PNBK)	14	1.230.455	1.08	15	1	0.18
9.	<b>Partai Demokrat (PD)</b>	5	<b>8.455.225</b>	<b>7.45</b>	4	<b>57</b>	<b>10.36</b>
10.	Partai Kebangsaan Persatuan Indonesia (PKPI)	12	1.424.240	1.26	14	1	0.18
11.	Partai Penegak Demokrasi Indonesia (PPDI)	19	855.811	0.75	17	1	0.18
12.	Partai Persatuan Nahdlatul Ummah (PPNU)	17	895.610	0.79	19	0	0
13.	<b>Partai Amanat Nasional (PAN)</b>	7	<b>7.303.324</b>	<b>6.44</b>	6	<b>52</b>	<b>9.45</b>
14.	Partai Karya Peduli Bangsa (PKPB)	11	2.399.290	2.11	12	2	0.36
15.	<b>Partai Kebangkitan Bangsa (PKB)</b>	3	<b>11.989.564</b>	<b>10.57</b>	5	<b>52</b>	<b>9.45</b>
16.	<b>Partai Keadilan Sejahtera (PKS)</b>	6	<b>8.325.020</b>	<b>7.34</b>	7	<b>45</b>	<b>8.18</b>
17.	Partai Bintang Reformasi (PBR)	9	2.764.998	2.44	8	13	2.36
18.	<b>Partai Demokrasi Indonesia Perjuangan (PDIP)</b>	2	<b>21.026.629</b>	<b>18.53</b>	2	<b>109</b>	<b>19.82</b>
19.	Partai Damai Sejahtera (PDS)	10	2.414.254	2.13	9	12	2.18
20.	<b>Partai Golkar</b>	1	<b>24.480.757</b>	<b>21.58</b>	1	<b>128</b>	<b>23.27</b>
21.	Partai Patriot Pancasila	15	1.073.139	0.95	18	0	0
22.	Partai Sarikat Indonesia (PSI)	21	679.296	0.60	21	0	0
23.	Partai Persatuan Daerah (PPD)	23	657.916	0.58	23	0	0
24.	Partai Pelopor	18	878.932	0.77	13	2	0.36
<b>TOTAL</b>			<b>113.462.414</b>	<b>100</b>		<b>550</b>	<b>100</b>

Source: Election result as announced by KPU on 5 May 2004.

likely that current popular support for PD will be solid. PD itself is not yet a strong party with solid mechanism and machines. PKS, by contrast, is a militant political party without any particular charismatic leader. Its achievement was the result of the party members' hard work amongst urban community throughout the past

five years. The next five years would be the real test for PKS as to whether it can maintain its militancy in promoting a "clean and concerned" government.

*Fifth*, if all the Islamic parties are put together (excluding PAN and PKB), then in the 2004 election, they



made up 23.09% of the votes, or 127 of the 550 seats in parliament. But, if PAN and PKB were included, they may gain 42% of the total votes or 231 seats. This is a significant increase compared to the 1999 election (34% of the vote or 171 seats). This is also about the same as what all Islamic parties got in the 1955 election (43%).

However, 25 years have brought about a lot of fundamental differences within the Islamic communities. In 1955, all Islamic parties formed one bloc of the Jakarta Charter (sharia law) in the Constituent Assembly. Nowadays, only 23%, at the most, are proponents of sharia (PAN and PKB are opposed to it). Amongst the proponents of sharia, only PKS obtained more votes and seats, while the rest stalled or even lost vote. PKS gain was not generated by a campaign for sharia, but by its anticorruption and welfare strategy.

*Sixth*, the results may bring about a greater fragmentation of political parties in the national parliament (DPR) as there are now seven major political parties. This will even increase the unpredictability of political dynamics in the parliament and make the formation of party coalition more fluid than ever. The process of formulating policies will also be tougher since it will take more than two parties to form a majority. At the same time, the formation of coalition will not be easy without the blocs of the two largest parties, Golkar and PDI-P.

Although 17 out of 24 political parties have achieved parliamentary seats, only 7 political parties passed the electoral threshold of 3% popular votes or 5% of parliamentary seats to be eligible to participate in the 2009 general elections. And, 5 out of them are old political parties (Table 2).

Table 2

## PARTIES' POWER CONFIGURATION, 1999 &amp; 2004

1999 Election			Rank	2004 Election		
Political Party	Result			Political Party	Result	
	Votes	%			Votes	%
PDI-P	35.689.073	33.76	1	Partai Golkar	24.480.757	21.58
Partai Golkar	23.741.749	22.46	2	PDI-P	21.026.629	18.53
PKB	13.336.982	12.62	3	PKB	11.989.564	10.57
PPP	11.329.905	10.72	4	PPP	9.248.764	8.15
PAN	7.528.956	7.12	5	Partai Demokrat	8.455.225	7.45
PBB	2.049.708	1.94	6	PKS	8.325.020	7.34
PK	1.436.585	1.36	7	PAN	7.303.324	6.44
PKP	1.065.686	1.01	8	PBB	2.970.487	2.62

Table 3

## NATIONAL LEGISLATIVE CONSTELLATION, 1999 &amp; 2004

1999 Election				2004 Election		
Political Party	Seats	%	Rank	Political Party	Seats	%
PDI-P	151	32.97	1	Partai Golkar	128	23.27
Partai Golkar	118	25.76	2	PDI-P	109	19.82
PPP	58	12.66	3	PPP	58	10.55
PKB	51	11.14	4	Partai Demokrat (PD)	57	10.36
PAN	34	7.42	5	PKB	52	9.45
PBB	13	2.84	6	PAN	52	9.45
PK	7	1.53	7	PKS (PK in 1999)	45	8.18
PKP	4	0.87	8	PBR	13	2.36

In this case, the results of the legislative election could hardly change Indonesia's political landscape fundamentally. Despite the ascendancy of PD and PKS, the real competition remains amongst the established political parties. Unless PD and PKS could perform well consistently as "new soul of political reform" in the parliament, Indonesia's parliamentary politics would not differ significantly from what it is today (Table 3).

### Council of Regional Representative (*Dewan Perwakilan Daerah* or DPD)

The 2004 elections have also given birth to a new institution, Council of Regional Representative (DPD) to the democratization process that serves the interest of the provinces. Voters in each province have directly voted for 4 DPD members. At the end of the legislative elections, 128 DPD members from 32 provinces were voted from 933 competing candidates.

The soft-bicameral system introduced by the new election law has placed the DPD at inferior level. Not only that the number of DPD members only constitute one-third of the Parliament members, its authorities are limited to consultative function on legislation related to regional autonomy and natural resources allocation. Despite the 'castrated' function, some put a bit of hope towards the DPD in setting a new precedent for a corruption free political institution and environment.

The public seems to be ready to try and give DPD members some chance. Recent survey by KOMPAS showed that the number of voters, who cast their vote for DPD members, reaches 84.23%. As a comparison, voters, who punch party symbol and candidate's name, only reach 47.24%. Most of the DPD members are known local figures, which make it easier for voters to identify with them.



Table 4

FEMALE DPD CANDIDATE(S)	
Province (s)	Candidate/ Province
Riau	3
West Kalimantan, East Kalimantan, North Sulawesi	2
Aceh, Riau Islands, Jambi, South Sumatra, Bangka Belitung, Bengkulu, Lampung, DKI Jakarta, Banten, Central Java, DI Yogyakarta, Bali, Central Kalimantan, Central Sulawesi, Maluku, North Maluku, Papua, West Irian Jaya	1
North Sumatra, West Sumatra, West Java, East Java, NTB, NTT, South Kalimantan, Gorontalo, South Sulawesi, Southeast Sulawesi	0

The legislative election results also show that of 128 elected DPD members, nearly 80% of them have no background in legislative, executive or military position. Most members came from business community, professionals and civil servants with bachelor degree as the dominant level of education background.<sup>1</sup>

### Women's Political Participation

The 30% quota requirement for female legislators on national level resulted in the emergence of 2,507 female out of 7,756 legislative candidates. Yet the feeble quota has only produced slight increase in female

Table 5

WOMEN'S SEATS IN DPR-RI		
Number of Seats	Party	% of Party's DPR Seats
18	Golkar	14.06
13	PDI-P	11.93
7	PAN	13.46
7	PKB	13.46
7	PD	12.28
4	PKS	8.89
3	PDS	25.00
3	PPP	5.17
2	PBR	15.38
1	PPDK	20.00

representation in DPR-RI — from 9.74% (45 women amongst 462 legislators) to 11.82% (65 women amongst 550 legislators) (Table 4 and 5).

Most parties failed to provide favorable democratic situations for the female candidates. Not only that most female candidates were given lower rank on the ballot, but they were also deprived of adequate supports (e.g. during campaign, voters were being urged to punch party symbol rather than being informed of the candidates' competence; limited political education; etc). Many female candidates with lower rank on the ballot actually collected more votes than the male candidate with higher rank. Regrettably, regulations do not allow candidates with lower rank to pass others with higher rank, despite vote gains.

Of the 933 DPD (Council of Regional Representatives) registered

<sup>1</sup>Potret Anggota DPD: Wajah Baru Dominasi Senator ala Indonesia' in *Kompas*, 26 May 2004.

candidates, 9.54% (89 candidates) are women. The recent legislative election results show that elected female DPD members reach 21.09% or 27 out of 128 members and that they are spread around 22 provinces.<sup>2</sup>

### Political Parties' Protests and KPU's Challenged Accountability

KPU's and Panwaslu's (Elections Supervisory Committee) limited institutional capacity and its members' insufficient experiences have caused many technical setbacks, and allowed procedural contraventions throughout the campaigning period and also in the overall conduct of the elections. Already many protests were addressed and some political parties refused to sign the results verification. Legal suits were made to challenge the results and previous violations.

If these situations are left unaccounted for, KPU's credibility and future integrity of the next Indonesian elections will be compromised. Such compromises will serve to build more fundamental obstacles to the consolidation of democracy.

However, even as the electoral processes continue to unfold, no consideration over proper accountability process for KPU has been seriously discussed. The question of what will

become of KPU once Indonesia has a new government remain under the hues and cries of the election.

### THE INDONESIAN PRESIDENTIAL ELECTIONS

When the projection of 2004 political constellation started to take shape, even before the official results were announced, party elites have braced themselves for the presidential elections by engaging in frenzied maneuvers and multifarious coalitions. Maneuvers between major leagues have shown how narrow our elites' ways of thinking are so far, despite the relative progress in electoral procedures. Neither candidate generates clear and realistic platforms to offer to the people.

#### Partai Golkar's Convention

Golkar convention and Wiranto's appointment as presidential candidate were amongst the most interesting lessons of Indonesian democracy. Initially most people were convinced that Golkar's Chair, Akbar Tandjung, would become the Presidential candidate. In fact, in the first round of the voting, Akbar got majority votes, followed by Wiranto. From the vote collected in the first round, Wiranto got more support from regional and regency level in his competition with Akbar, who got more support from central level. In

<sup>2</sup>Source: IFES, 2004.



the second round, however, Wiranto won by a large margin. Akbar's loss was not only due to his involvement in a corruption scandal, albeit being cleared by the Supreme Court that ignited strong anti-rotten politician campaigns against him. Reports suggest that money politics have been a decisive determinant in Wiranto's win.

The elites in Golkar may not realize the ramification of Wiranto's installment and undermine the party's potential victory in the presidential election. Wiranto's unexpected appointment as Golkar's presidential candidate has fueled a raging anti-militarism movement amongst students, human rights activists, media and other elements of civil society — nationally and internationally. Nationally, the anti-militarism movement expanded rigorously during May, the month of *Reformasi*, which marked the resignation of Soeharto. Since the culprits of the May 1998 riot, Trisakti incident, and the following Semanggi I and Semanggi II incidents have not been properly investigated nor brought to justice, contempt against the military has continued to gain momentum. Internationally, a UN sponsored court for human rights violation in East Timor has indicted Wiranto. Many observers and key figures have made critical assertions that Indonesia would turn into a *pariah* state in the international community if Wiranto were to be the President.

### Gus Dur's Position and the Significance of NU Competition

PKB named Gus Dur as presidential candidate and Marwah Daud Ibrahim as his running mate. Gus Dur, however, failed to fulfil the health requirement. KPU had been insistently stick to their decision not to let Gus Dur's candidacy despite the fervent anti-discrimination campaign directed against KPU by his supporters through various major media. In response to such rejection, Gus Dur has attempted to threaten to boycott NU's votes nation-wide and to sue KPU, Ministry of Health and the Indonesian Doctors Association (IDI) for 1 trillion Rupiah (US\$110 million) in nonmaterial damages. Later he withdrew his boycott threat but continued with his legal suit.

Refusing to accept KPU's decision, Gus Dur has put himself "outside of the system" and declared that he will support no one. He may not be able to act as the kingmaker, which he potentially could be, had his capriciousness not threw it away. After all, NU comes out to be so valuable in the competition for Presidency.

Both Wiranto and Megawati, candidates from the 2 largest parties, sought NU's support and secured the support of the 2 leading figures in PKB and NU, Solahuddin Wahid and Hasyim Muzadi respectively. Gus Dur's decision to allow (not ne-

cessarily support) Solahuddin has generated splits in NU, but at the same time positioning a foot in each of the 2 major contenders. Further splits may occur, as Hamzah Haz and Jusuf Kalla are also prominent NU figures. The way this competition will be played out will be an interesting development of democratic processes, especially for NU itself.

Within NU, internal rivalry for future influence between the blue blood (represented by Gus Dur) and the ordinary *santri* (represented by Hasyim Muzadi) has further complicated the potential significance of NU factor in the upcoming presidential election. Whichever side will win the presidential seat will obtain improved status and power within NU community. Past demotion from presidency had deteriorated Gus Dur's position within NU and Gus Dur is very well aware of this. But one should note that the increased uneasiness with Gus Dur is mainly caused by his capriciousness and unpredictability-though this all must be assented because of Gus Dur's blue blood.

### Coalition and Pairing

The most shocking pairing of all is between Wiranto, who is under allegation of being responsible for multifarious human rights abuses, such as East Timor and May 1998, and Solahuddin Wahid, who is known as a human rights defender (former

vice-chair of the National Commission of Human Rights). This has been one of the major setbacks of human rights and democratization efforts. Despite the strong rejection from key elements of civil society, including those within NU circle, the pair pushed through and on 28 May 2004, PKB and Golkar signed an accord for reciprocal support.

Theoretically, there should not be any direct relevance between legislative election and presidential election. However, within the context of Indonesian social and political culture, results of the legislative election in April 2004 have depicted the voter constellation for the upcoming direct presidential election.

Presidential candidates have been calculating the power composition of the political parties within the Parliament in making decisions on pairing, lobbying and/or campaigning activities. Not only that these moves construct future daily relations between executive body and legislative body, but the people's voting pattern are still very much influenced by the party solidarity line, as reflected in the results of the 2004 legislative election. Based on that logic and after undergoing a number of administrative and health scrutiny, the five candidates together with their respective running mates are competing for the presidential hot seat, namely (in official order, Table 6):



Table 6

**PRESIDENTIAL CANDIDATES AND IDEOLOGICAL CONSTELLATION**

No.	Name	Ideological Constellation
1.	Wiranto & Solahuddin Wahid (Golkar Party)	Nationalist (military) & Religious (NU)
2.	Megawati Soekarnoputri & Hasyim Muzadi (PDI-P)	Nationalist (civilian) & Religious (NU)
3.	Amien Rais & Siswono Yudhohusodo (PAN)	Religious (Muhammadiyah) & Nationalist
4.	Susilo Bambang Yudhoyono & M. Yusuf Kalla (PD)	Nationalist (military) & Religious Technocrat (NU)
5.	Hamzah Haz & Agum Gumelar (PPP)	Religious (NU) & Nationalist (military)

The presidential election will definitely be a tough battle for the eligible candidates, especially with the 51% majority votes and with at least 20% vote spread around a minimum of 17 provinces. It will be hard for each candidate to immediately win the majority of votes during the first round of the presidential election on 5 July 2004. Only those that can obtain more than 30 million votes could enter the second round. The critical question is: which pairs would compete in the second round of the elections on 20 September 2004?

Indonesia has no experience in conducting such direct presidential election before. Not only that it is hard to predict the people's voting behavior and pattern, but the candidates' pattern of mobilizing support would also be unpredictable. Coalition made so far relied heavily on estimations based on recent legislative election. But there is no guarantee that the pattern in the presidential election would follow the legislative

elections. Each of the candidates holds strengths as much as weaknesses regardless of their ideological constellation as reflected on the Table 6 above. Nobody can guarantee how solid the support from partnering political parties can be — since strategic alliances are forged mostly on elite level rather than grassroots and the alliances themselves are fluid in up-holding their own interests.

Conservative estimation based on popular vote and ideological composition that took shape during the legislative election is an alternative way of mapping the capacity of each presidential candidates. The mapping could be as follows:

1. Wiranto is seen as having the best political machine in Golkar and lots of money. Still, Wiranto is not a Golkar cadre; he is a newcomer to the party. The candidacy of Jusuf Kalla, another leading figure in Golkar, as SBY's running mate, may split Golkar's vote. Ak-

bar's supporters may also shift their support to other candidate.

Though PKB has decided to support Solahuddin Wahid and manage the campaign for Wiranto-Solahuddin ahead of the elections, that does not necessarily mean that all NU followers will follow. Barra Hasibuan, a prominent young politician from PKB, has openly criticized Wiranto and has left PKB in protest. Gus Dur, though allowing PKB to support the pair, has declared that he himself will not vote in the upcoming Presidential Election.

Wiranto and Solahuddin have secured support from Golkar, PKB, PKPB (led by retired General Hartono and includes Soeharto's daughter, Tutut) and PPDK (chaired by former Minister for Regional Autonomy, Ryaas Rashid). Andi Malla-rangeng, a leading figure in PPDK, also left his party as protest against PPDK's decision to formally support Wiranto.

*If there were no splits in either party supporting Wiranto-Solahuddin, the combined earlier votes of the 4 parties would reach 40 million. Nevertheless, as of the end of May, popular polling suggests Wiranto's popularity ranked only 4th with very low percentage.*

2. Despite PDI-P significant loss of votes, Megawati still stands a

chance in the presidential elections. Partnering with Hasyim Muzadi may not guarantee big bulk of NU votes as there are other NU candidates pairing with other presidential candidates. NU claimed to have up to 40 million followers, yet it is no monolithic or despotic institution. PKB claimed about 12 million NU supporters; it may be that Muzadi could mobilize at least another 10 million NU supporters.

So far, the pair has officially secured the support of PDIP-P, PDS (a small Christian party, which constituents are mostly out of Java), and several NU prominent clerics. *Conservative estimation amounts to 32 million votes. As the end of May, popular polling shows that Megawati ranked second.*

3. Amien Rais and Siswono have secured the support of PAN, PBR (chaired by Zainuddin MZ, who left Hamzah's PPP), and other smaller 'secularist' parties that failed to pass the presidential candidacy threshold, such as: PNBK (led by Eros Djarot, who split from Megawati's PDI-P); PPDI (chaired by Dimmy Hartono, a party incarnated from the old PDI); PSI, and PNI Marhaenisme (led by Sukmawati, Megawati's sister); also Muhammadiyah, a non-party Islamic organization with strong basis in urban areas. The phenomenal PKS may also support Amien Rais. *The*



*estimation for Amien-Siswono reaches 23 million. In terms of popular polling, Amien is on the third position and appears to be progressing.*

4. Susilo Bambang Yudhoyono founded PD to become his political machine. His running mate, Jusuf Kalla is a respectable figure from Golkar and popular amongst the eastern part of Indonesia. They used to be colleagues in Megawati's *Gotong Royong* cabinet.

This candidate couple has formed quite a strange coalition of parties, each having different fundamental platforms. PBB, for instance, advocates the introduction of *Sharia* Law. It is not clear how the coalition was formed. The support of PD, PBB, PKPI, several Golkar politicians, and retired TNI generals may not be enough to cover the ground, as SBY has no political machine to prop him.

*SBY has been consistently occupying the most popular position in popular polling by wide margin. Nevertheless, conservative estimation based on votes counted in legislative election shows that this couple would only gain at least 13 million votes, much less than the other three.*

5. Hamzah Haz and Agum Gumelar seem to rely on the solid support of the PPP. But they are also hoping to retract 30 million votes from

West Java through the Agum Gumelar factor. Hamzah Haz, the incumbent vice president, was expecting for either Megawati or Wiranto to propose to him. Since neither did, he took last minute call and proposed retired General Agum Gumelar to become his running mate. Agum, a member of Megawati's cabinet, will unlikely bring significant vote for Hamzah. The presence of three former generals in the competition will split the military's support.

*This couple stands no chance to make it to the second round, as they will only get 10 million votes at the most. Additionally, in popular polling, Hamzah only occupies the lowest rank.*

### Possible Outcomes

During the recent legislative elections there are around 113 million valid votes (registered voters are 147 million but 124 million showed up). For the upcoming presidential election, there are around 150 million registered voters. Voter turnouts are estimated to be higher this time, because turn up rate will likely escalate and technical or administrator errors will be fewer, as the voting process will be much simpler. *The first presidential elections on 5 July will illustrate whether candidate's popularity is more significant than party support and machinery; and whether platforms are more appealing than symbols.*

With that in mind, there are several likely scenarios.

*Scenario 1*, Megawati-Muzadi will become a finalist, facing Wiranto-Solahuddin in the second round in September 2004. But this scenario requires the effectiveness of their political party machines. If only party machines are the basis of victory, then Wiranto-Solahuddin may win the presidential election.

*Scenario 2*, if the anti-human rights abuses sentiments gained momentum, it is very likely that SBY-Kalla will take on Megawati-Muzadi on the second round. If human rights movement is the determining factor, then Megawati-Muzadi may win.

*Scenario 3*, if the human rights movement were really dominant, it would not be impossible that the second round will present Megawati-Muzadi and Amien-Siswono. If so, both candidates have equal opportunity to win. The victory would be obtained by whichever couple that can assemble support from the losing candidates.

Whoever the next president will be, he/she would have to be able to cooperate with the fragmented Parliament and realize the need to create majority coalitions within the DPR to get the legislation, program, budget and appointments through so that the DPR can perform more effectively and efficiently.

## REGIONAL AUTONOMY UPDATE

While regional autonomy remains to be the most critical quandaries for Indonesian democratization, many of the most complicated issues are overshadowed by the election hubbubs.

### Aceh's New Status & Puteh's Corruption Charges

The situation in Aceh remains problematic, even though President Megawati changed Aceh's martial law status to a state of civil emergency. The status will likely last for 6 months. Despite the shift in status, 40,000 TNI and Police force remain in Aceh. Megawati's decision to appoint Abdullah Puteh (governor of Aceh) as the administrator has raised many concerns.

Puteh is currently under numerous graft allegations. One relates to the 10.2 billion Rupiah (approximately US\$1.13 million) price mark-up in the purchase of a Russian-made helicopter and a used printing press for the administration, also the procurement of cars for 53 local councilors. Another case involves in the 30 billion Rupiah (US\$3.33 million) state fund for purchasing the *Lueng Bata* electrical power station in order to supply electricity demand in Banda Aceh region. Peculiarly, the project has to stop because State Electricity Company (PLN) said that several electrical relay stations were demo-



lished during fighting between military soldiers (TNI) and Free Aceh Movement troops (GAM).

The martial law administrator had carried out preliminary probe and the Attorney General's Office will follow up soon. Puteh's appointment as administrator may put him in place where he could rule out the graft cases that implicate him and many other regional authorities. In late May, Megawati has given her consent for the police to continue with the investigation. National Police chief Gen. Da'i Bachtiar also confirmed that the police would immediately start with their interrogation with Puteh and other alleged 42 local administrators.

### **Religious Conflict in Ambon**

Another violent conflict exploded in Ambon mid April 2004. The violence was ignited when the local separatist group, Republic of South Mollucas (RMS), raised their flag and led to the loss of 32 lives. Suspicions over military involvements and politisation of conflict prior to the 2004 presidential elections arose, yet difficult to prove.

Though the security managed to prevent escalation and spread of violence, the government's lack of attention to society's concern was evident. The government's constant preoccupations with presidential cam-

paigns have undermined the continuous sporadic conflicts in Ambon.

### **OTHER POLITICAL ISSUES**

#### **Rehabilitation of the Ex-Communist Party Member**

In March 2004, Constitutional Court's decision to allow ex-communist party (PKI) members to participate in legislative election has been considered by many as a positive step towards greater appreciation of individual civil and political rights. Having their rights to vote and to run in the legislative elections starting from 2009 restored after three decades of conviction, this situation sets new precedence in recent human rights development.

#### **Greater Public Participation in Legislative Procedures**

On 24 May 2004, the government approved the bill on Legislative Procedures. The bill was initiated by the Parliament around 3 years ago. It will regulate the hierarchy of laws and regulations in a more effective fashion. Most importantly, particularly with regard to Article 3, the law will allow greater public participation in law-making. NGO coalition on participatory policies have played a significant role in making sure that the public has the right to be involved in lawmaking as stated explicitly in Article 3.

## Civil Society Under Pressure

On 26 May 2004, after a meeting with House Commission I, National Police chief Gen. Da'i Bachtiar raised caution on a report concerning 20 local and foreign NGOs whose reports could trigger security disturbances in the presidential election. Though authorities mentioned no names, the International Crisis Groups Indonesia and Institute for Policy Research and Advocacy (Elsam) are amongst the 20 NGOs. Da'i also warned that further probe collection is underway to charge the NGOs and their activists with provoking people, causing public disturbance and sowing hatred against the government.

Head of the National Intelligence Body (BIN), Hendropriyono, who by law has the authority to review foreigners' work permit, said that security authorities might not extend the work permit of International Crisis Group (ICG) director, Sidney Jones. He also accused her of tarnishing Indonesia's image through ICG reports, yet did not point out which part of the report was fabricated or false.

Hendropriyono's warning that the government could use 'old measures'

to deal with this issues, referring to the use of violence to clamp down on government critics under the past regime, sent a *déjà-vu* chill to the spines of the already fragile Indonesian civil society and democracy. This explicit threat over the people's civil and political rights is a stark contrast to rhetoric raised by all 5 presidential candidates about their intention to uphold human rights and democratization.

Some key figures of civil society challenged the existence of the earlier report and invited security authorities to be open for dialogues. Yet the government and security authorities at this point have not responded to the invitation and are unwilling to share the report or any other related information.

As long as the government and security authorities see the presence of civil society within the framework of power relations, constructive engagement between state and society will not progress, thus stalling democratization process. Indonesian democratization will falter if every government critics are responded with intimidation.



## REVIEW OF ECONOMIC DEVELOPMENT

# Not Too Bad, But Not Good Either

*Staff, Department of Economics, CSIS*

### INTRODUCTION

**T**HE current year is an unusual period for Indonesia. For the first time the country is going through the long spell of election process. This and other domestic as well as international developments have undoubtedly had an influence on Indonesia's economic progress. In fact, they seem to have conspired to deny the economy an easy ride and deprive the government and the central bank of their ability to utilize fiscal and monetary stimuli to revive the economy.

Referring to the country's economic growth, the newly announced GDP growth data suggest that the economy is stuck in a medium-level growth of between 4-5%. This is well below the 6-7% rate of growth needed to ease the unemployment pressure. Meanwhile, since March inflation has

reversed its downward course. In May, monthly inflation was around 0.88%, bringing the annual inflation to 6.47%. With regard to trade, driven by the manufacturing sector, total export increased only slightly by 0.9% to about US\$15 billion in the first quarter 2004 relative to that of the same period last year. Total import was about US\$8.9 bn and consisted mainly of raw material and intermediate inputs, exhibiting a 3.5% growth (y-o-y).

Fiscal and banking issues are amongst several issues in the past few months that need extra attentions. On the fiscal issue, the government will have to revise the current year's state budget due to increased world oil price, and the prospect of failing to secure Rp8.5 trillion worth of CGI loans, due to its inability to complete several reform agenda. On the banking issue, the central bank's recent

Table 1

## GDP GROWTH BY EXPENDITURE, 2003-2004

	Q4 -2003 to Q3-2003	Q1-2004 to Q4-2003	Q1-2004 to Q1-2003
<b>GDP Growth</b>			
Private Consumption	2.5	0.6	5.7
Government Consumption	15.0	-15.9	12.8
Gross Domestic Fixed Capital Formation	0.2	0.0	4.2
Change in Stock	-47.5	84.2	16.1
Exports of Goods & Services	-0.3	2.0	0.9
Imports of Goods & Services	3.5	0.7	6.5
GDP	-3.1	3.5	4.5
<b>% Contribution to Growth</b>			
Private Consumption			77
Government Consumption			20
Gross Domestic Fixed Capital Formation			18
Change in Stock			18
Exports of Goods & Services			8
Imports of Goods & Services			-40
GDP			100

Source: BPS

closure of four commercial banks has again raised questions about the soundness of the country's banking system. While the closure seems to imply that BI has done its supervisory role well, but a closer look at the cases suggests otherwise.

### ECONOMIC GROWTH: NOT BAD, BUT NOT GOOD ENOUGH

The Central Board of Statistic (BPS) recently had announced that year-on-year economic growth in the first quarter of 2004 was 4.46%.<sup>1</sup> Given this

trend, the government growth target of 4.8% for the year 2004 is achievable. However, compared to its neighboring countries, this growth performance is not good enough. It is also still below the 7-8% GDP growth required to absorb increasing unemployment, which is currently around 10%.

The data on GDP growth by expenditure component is presented in Table 1. The data shows that private as well as government consumption continued to drive economic growth.

<sup>1</sup>It also announced changes in the base year of the GDP from 1993 to 2000. As a re-

sult, the GDP growth for 2002 was adjusted from 3.5% to 4.3% and that for 2003 was adjusted from 4.1% to 4.5%.



Private consumption grew at 5.7% in Q1-2004, contributed to around 77% of GDP growth. Together with government consumption, total consumption accounted for almost all of GDP growth in Q1-2004. The main weakness of Indonesia's economic recovery was on its reliance on consumer spending. After a strong consumer confidence index from January 2003 up to July 2003, it has been more or less flat since then.<sup>2</sup>

The other two engines of growth—investment and exports—remain weak. Yearly investment growth in Q1-2004 was 4.2%.<sup>3</sup> However, compared to the fourth and third quarter last year, investment remain stagnant. Investment growth continued to be driven in the most part by spending in the construction sector.

Export performance in Q1-2004 was also disappointing. It grew by 0.9%, contributing to only 8% of GDP growth. Prior to the crisis, exports grew at a double-digit rate. As a rule of thumb, it should grow twice

as much as that of GDP. The reason behind this disappointing export performance is the weak manufacturing sector. Meanwhile, imports on goods and services increased by 6.5% compared to those in the same period last year.

On the production side, three large sectors—agriculture, manufacturing and trade, and hotel and restaurant—performed well while other sectors grew at rates below the GDP growth (Table 2). Those three sectors contributed to 73% of the GDP growth. However, the most dynamic of the engines of growth, namely the manufacturing sector, remained weak. During this year's first quarter, it grew by 5.5% compared with last year, or only 2.7% compared with that in the previous quarter. Prior to the crisis the manufacturing sector grew at 12-14% and contributed to 33% of the GDP.

### Outlook for 2004

The next two months will be uncertain times because consumers and businessmen will be waiting for the new government. Before a definitive government, along with clear programs and cabinets, is established, investors will still take a 'wait-and-see' position. The slowdown of China's economy, though estimated to be insignificant, will affect Indonesia's export performance.

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<sup>2</sup>Separately calculated and published by Bank Indonesia (BI) and The Danareksa Research Institute (TDRI).

<sup>3</sup>According to a TDRI publication, Business Sentimen Index weakened in February-March this year after reaching a peak during the second half of last year. This was due to concerns of election-related social unrest, although later this concern was not proven.

Table 2

## GDP GROWTH BY PRODUCTION, 2003-2004

	Q4 -2003 to Q3-2003	Q1-2004 to Q4-2003	Q1-2004 to Q1-2003
<b>GDP Growth</b>			
1. Agriculture	-20.6	17.1	1.5
2. Mining	-1.8	-3.9	-2.7
3. Manufacturing	-0.5	2.7	5.5
4. Electricity, Gas & Water	-2.1	-2.7	2.2
5. Construction	3.4	-1.3	7.3
6. Trade, Hotel & Restaurant	-0.2	3.8	6.1
7. Transport & Communication	5.3	0.6	13.8
8. Business Services	0.6	2.4	4.9
9. Services	1.0	1.2	4.4
GDP	-3.1	3.5	4.5
<b>% Contribution to Growth</b>			
1. Agriculture			5.3
2. Mining			-6.4
3. Manufacturing			34.5
4. Electricity, Gas & Water			0.3
5. Construction			9.1
6. Trade, Hotel & Restaurant			22.5
7. Transport & Communication			16.1
8. Business Services			9.6
9. Services			9.0
GDP			100.0

Source: BPS

Last month Rupiah began to get increasingly weaker and oil prices have increased. The weakening of the Rupiah will benefit exporter. However, the supply side response has been slow due to economic rigidity. Oil price increases will put further pressure on the government's ability to stimulate growth through fiscal stimulus.

Against this backdrop, we expect than economic growth in 2003 will barely achieve the government target of around 4.5-4.8%.

## MONETARY DEVELOPMENT

Annual inflation went back up to reach 6.47% in May. Meanwhile, base money went up in April, but the slight rise inflation and the potential uncertainty, rooted in the presidential election and external factors, is likely to bring it under the indicative target once more. The decline of nominal interest rates is halted by global as well as domestic risks. Rupiah and the stock market were stable up to the end of May, but were shaken following indications of a possible increase in the Fed interest rates.



## Inflation

The declining trend of annual inflation, maintained during the first two months of 2004, was halted in March. After reaching a 43-month low in February of 4.60%, yearly inflation crept up to 5.11% and 5.98% in March and April respectively. As shown in Figure 1, the upward movement continued in May, almost exceeding the government's inflation budget assumption at 6.47%.

In all three months, the increase in the prices of food, and housing and utilities contributed significantly to overall inflation. This was due mainly to a rise in home rental rates, and in utilities (for clean water). Food prices also contributed significantly to inflation. In April, a sudden jump took place in the price of broiler chicken, which reflected a belated supply response to the bird flu epidemic (mainly due to raised costs of chicken feed and vaccines). The inflationary pressure was added by, the rise of phone rates at the average of 0.53% by PT Telkom in May.

It appears that the parliamentary election in April has had very little effect on inflation. The prices of clothes, a commodity usually associated with election campaigns, for instance, did not increase significantly, perhaps due to the surge of imports, particularly from China, that have relieved the

economy of some its inflationary pressures.

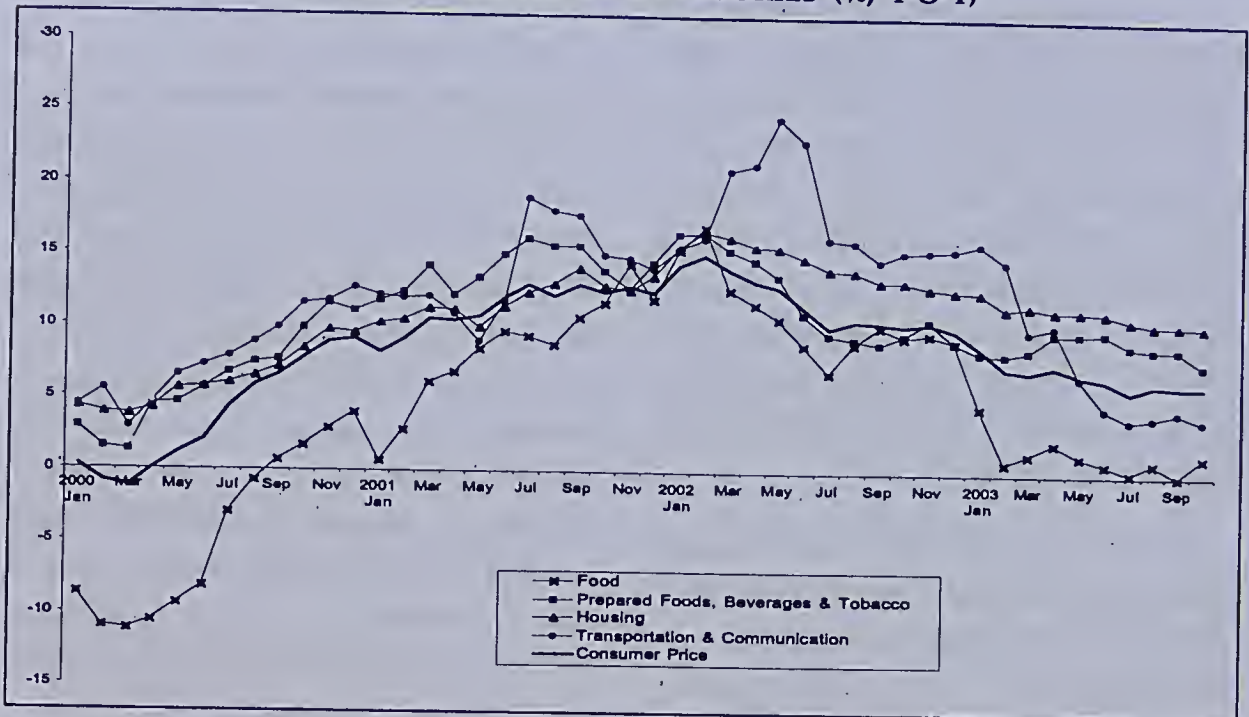
In the following months, both the direct presidential election and the state of the global economy, particularly in relation to oil prices and United States (US) interest rates, will affect inflation. Both factors, especially the latter, will increase uncertainty and might affect inflation through weakened exchange rates (see the section on exchange rates below). Assuming a smooth presidential election and no unexpected changes in the global economy, we expect yearly inflations of between 6.3-6.8% in the second quarter of 2004.

## Money Supply, Interest Rate and Credit Growth

After shooting above Bank Indonesia's (BI) indicative target at the end of 2003 during the end-of-the-year festivities, base money was put under control again in Q1-2004 (Figure 2). Compared to that at Q4-2003, the base money fell by Rp23.75 trillion to Rp142.73 trillion at the end of Q1-2004 due to the decline in the demand for currency and demand deposit. However, by the end of April, the base money increased again to Rp146.3 trillion before going down to Rp143.5 trillion in mid-May. This gave a signal for BI to approach the lowering of interest rates cautiously.

Figure 1

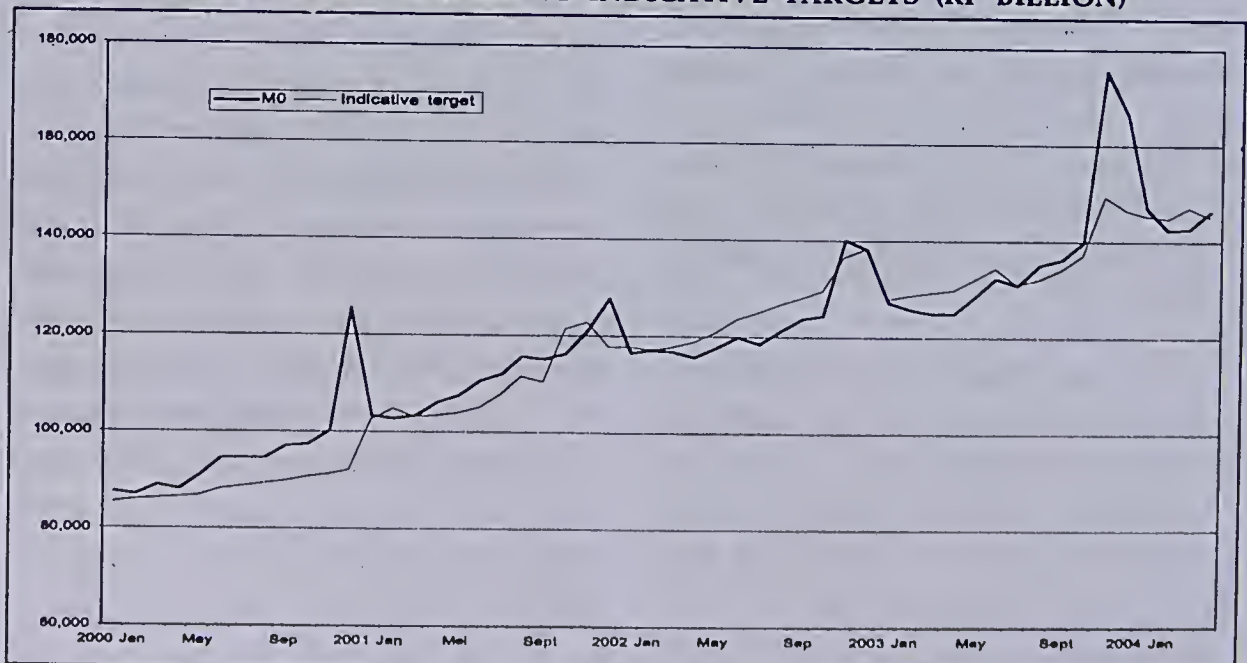
## INFLATION RATES BY CATEGORIES (% , Y-O-Y)



Source: BPS.

Figure 2

## MONEY SUPPLY: VOLUME VS INDICATIVE TARGETS (RP BILLION)



Source: Bank Indonesia



Declining nominal interest rates continued throughout the first four months of 2004, albeit at a decelerating rate (Figure 3). Between the end of January and April, the 1-month *Serifikat Bank Indonesia*/SBI (Bank Indonesia Certificate) fell by 53 basis points (bps) from 7.86% to 7.33%. In May, however, BI decided to halt this decline in anticipation of global uncertainties associated with higher oil prices and the plan of the US Federal Reserve to increase its interest rates.

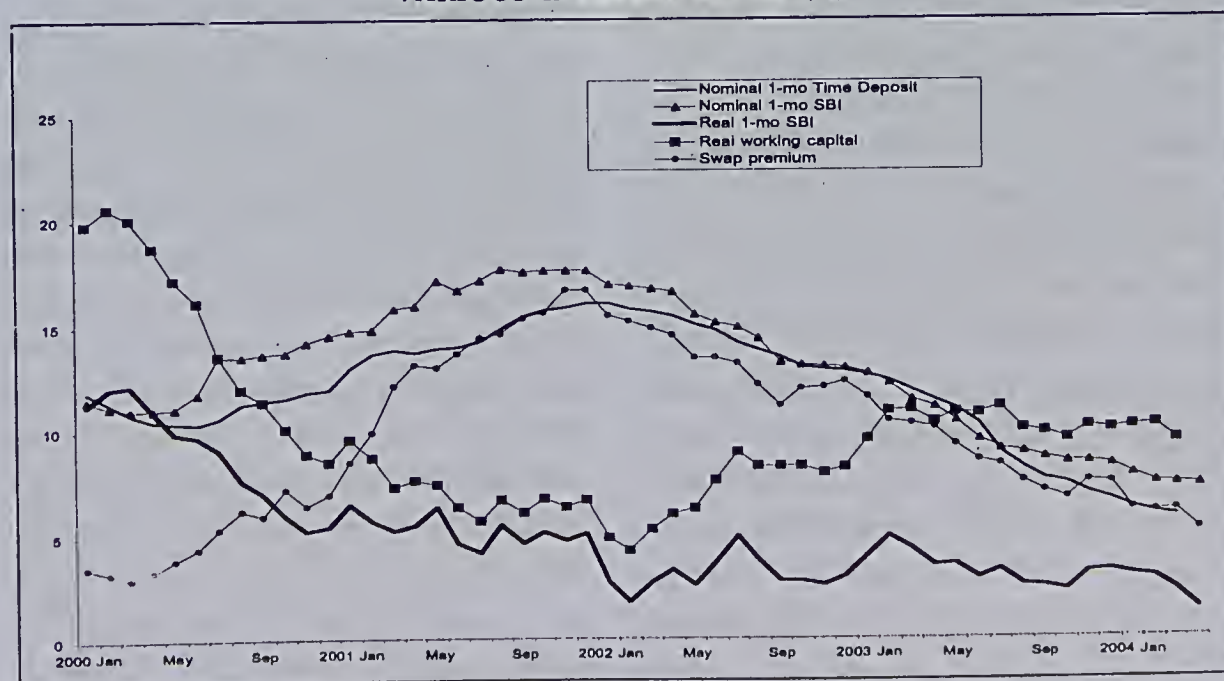
Given the higher inflation, the decline in real interest rates was quite significant. Real 1-month SBI interest

rate fell from 3.04% in January to 1.35% by the end of April. With increased inflationary pressure from a weakening short-term exchange rate, this trend is likely to continue. Until the direction of the global economy, and its effects on inflation, becomes clearer the coming months, BI is likely to take a wait-and-see stance on the lowering of the nominal interest rates.

Meanwhile, lending rates remained sticky. Between the end of January and March, nominal lending rates fell by a mere 38 bps to 14.61%, or a 67 bps decline of real interest rates to 9.50% by the end of March. This has caused the annual credit growth in

Figure 3

## VARIOUS INTEREST RATES (%)



Source: Bank Indonesia

the first quarter of 2004 not to exhibit significant increases. Total growth of credits hovered around 18-20% and there was a declining trend towards the end of the quarter as greater uncertainty near the parliamentary election period discouraged business expansions.

Consumption remained the dominant source of credit growth. Its importance in the banks' lending portfolios continued to increase from 25.6% in the end of Q4-2003 to 26.6% in the end of Q1-2004. By the end of Q1-2004, its yearly growth was 43.2%, up from 40.4% in the previous quarter.

The strong growth in consumption credits was not accompanied by similar gains in investment and working capital. The growth of credits for investment increased by 0.3%, amounting to 14% in the end of Q1-2004, while that of working capital was down to 10.9%, a 3.4% drop from the previous quarter. At the same time, the overall growth of credits for small and medium enterprises fell from an annual increase of 18.8% in Q4-2003 to a mere 9.7% in Q1-2004. The stagnant credit growth for production activities is likely to continue, given the greater uncertainty stemming from both internal factors (e.g., the presidential election) and external factors (increased US interest rates) in the coming months.

## Exchange Rate, Stock and Bonds Market

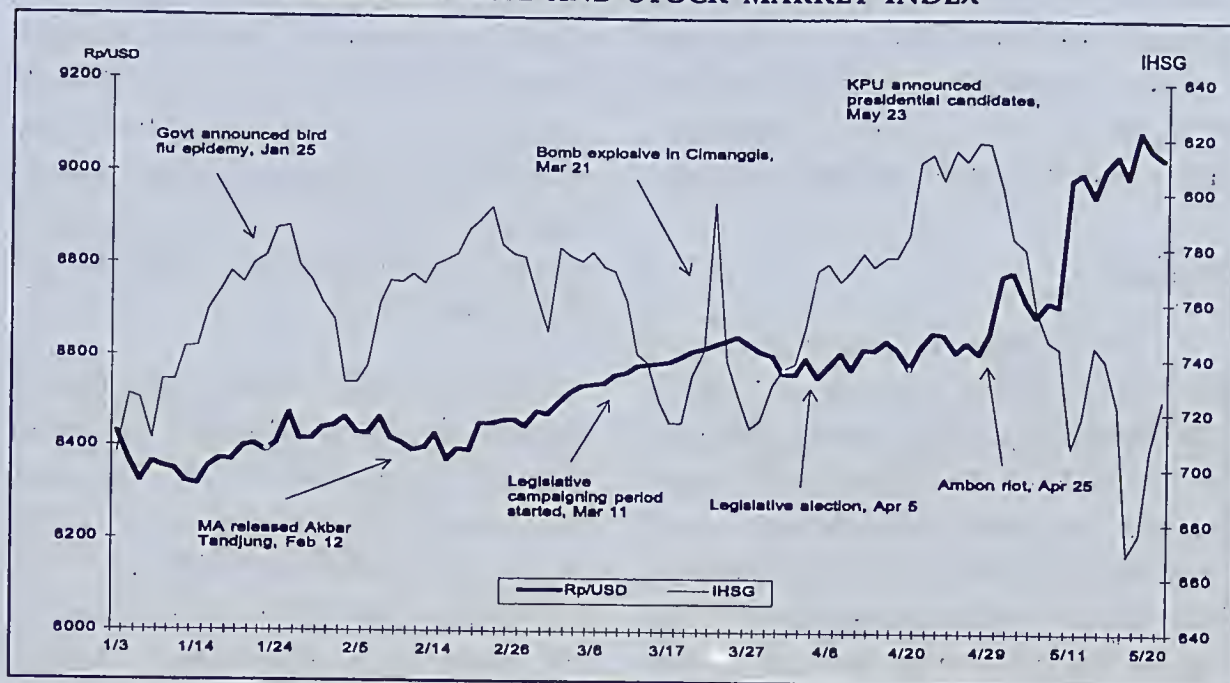
The first quarter of 2004 was characterized by a stable exchange rate and a bullish stock market. The value of Rupiah hovered around Rp8,300 and Rp8,650, while the Jakarta Stock Market Composite Index (*Index Harga Saham Gabungan/IHSG*) came close to the level of 800 point. This stability continued until the end of April 2004 — even the campaigns for the parliamentary election did not have a significant destabilizing impact on either the stock or the money market.

External factors sparked the instabilities in both markets, with reports of a strong US recovery starting speculations that the Fed might start increasing interest rates. Following the news, many investors started to shift their portfolio to dollar-denominated assets, weakening global and regional stock markets, as well as depreciating most currencies against the US dollars. On top of that, domestic factors such as the news of a higher April inflation announced in early May, and the change increase in the guaranteed deposit rate (see above on interest rate) helped exacerbate the weakening of the Indonesian markets. The turning point in both the stock and money market can be seen on 10 May, when the value of the Rupiah against the US dollars fell by 3.92%,



Figure 4

## EXCHANGE RATE AND STOCK MARKET INDEX



Source: Bank Indonesia and the Jakarta Stock Exchange

while the stock market lost 4.92% of its value (Figure 4).

In the last three weeks of May, the Rupiah continued its gradual decline, reaching a 19-month low of Rp9,265. Meanwhile the stock market fluctuated wildly. The IHSG fell from 801 by the end of April to 668 in mid-May, before finally leveling off at around 720 by the end of May. The stock market was buttressed by, among others, excess liquidity in the market following the maturing of about Rp4.8 trillion of government bonds on 25 May. This storm is expected to calm down once the Fed announced its interest rate hike.

Uncertainties about the global environment, particularly with the Fed's

plan to increase interest rates, have increased the investors' expected yield of newly-issued bonds. A recent bonds auction (25/5) was cancelled by the government because the expected yield exceeded what the government was willing to offer. In addition, some investors have started to move away from bonds to other assets that would give them higher yields.

In general, the buoyant stock market in the first quarter of 2004 had made bonds less attractive. As of April 2004, the government has Rp163.5 trillion worth of fixed rate bonds — an increase from Rp159.0 trillion at the end January 2004. The total value of the variable rate bonds increased from

Rp225.6 trillion in January to Rp226.1 trillion in April. Meanwhile, the volume of transaction in the secondary market peaked in January at Rp59.15 trillion, only to then decline, reaching Rp36.0 trillion by April.

## Prospects

In the absence of external shocks, the first quarter of 2004 showed a stable economy. The instabilities seen at the end of April and May were mainly externally driven and were experienced not only by Indonesia, but also by other countries in the region. However, once the Fed decides on the interest rates, it will be up to BI to maintain the stability of the Rupiah. Since BI had maintained its commitment to a flexible exchange rate regime, we could not predict the proper exchange rate prior to the interest rate announcement. Nevertheless, given BI's commitment to a low inflation, we could expect a tighter monetary policy in the following months to keep inflation within its own target of 5.5-6.5% range. This would be a very tall order for BI, given that annual inflation has reached 6.47% in May.

## BALANCE OF PAYMENT

The year 2003 witnessed a current account surplus of US\$7.4 bn, 5% lower than the 2002 surplus due to a larger service account deficit. Al-

though there was an increase in merchandise imports, the increase was much less than the services account deficit. Given that the services account deficit was expanding, with net merchandise exports of the first quarter 2004 of US\$6.1 bn, we expected a smaller current account surplus for the first quarter 2004.

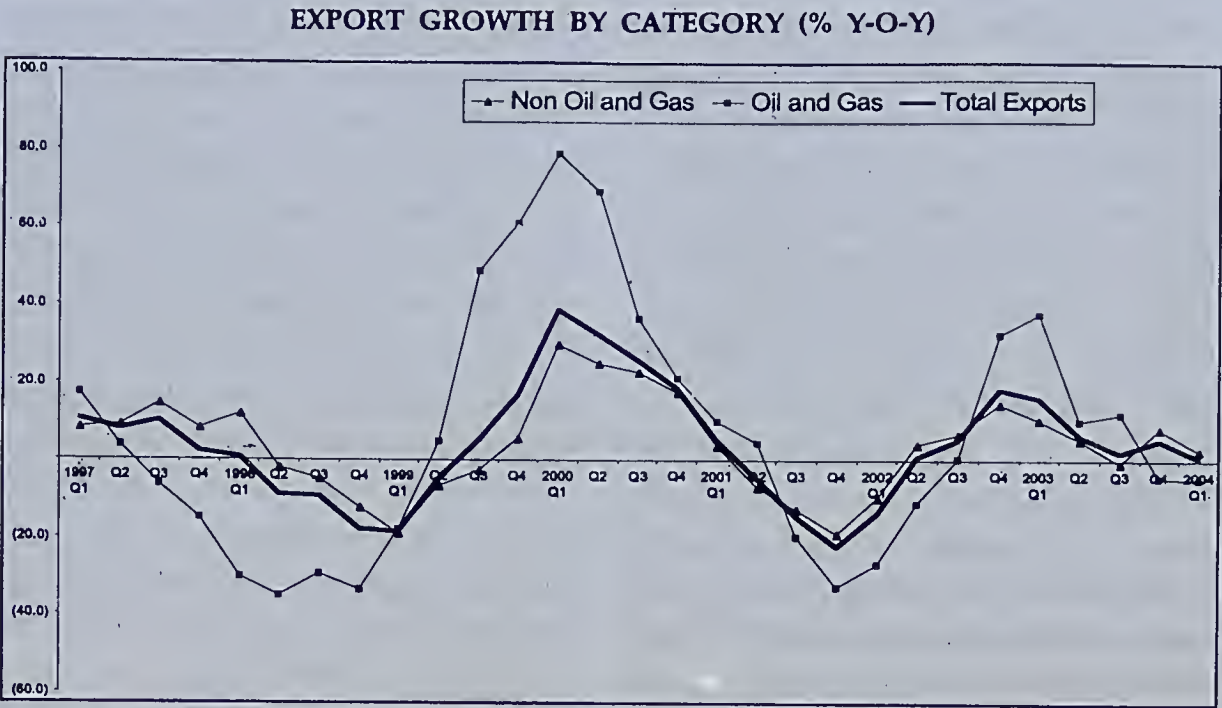
Private capital flows remained in negative territory, although the deficit was not as large as that of last year. Net private capital flows in 2003 was at about negative US\$0.95 bn, 13% lower than year 2002, mainly due to the large debt repayments. Despite some green-field investments and major portfolio investment took place last year, these new investments were outweighed by debt repayments.

## International Trade

The first quarter of 2004 witnessed a very small increase in exports, as compared to the same period last year. Total export was about US\$15 bn, exhibiting a 0.9% growth (y-o-y). The drivers behind this small increase were the non-oil exports, which increased by 2.7% (Figure 5). In contrast, oil and gas exports deteriorated significantly, by about 4.7%, despite higher oil prices compared to those in the same quarter last year. Indonesia could not take benefit of the oil price hikes due to the decline in its total production.

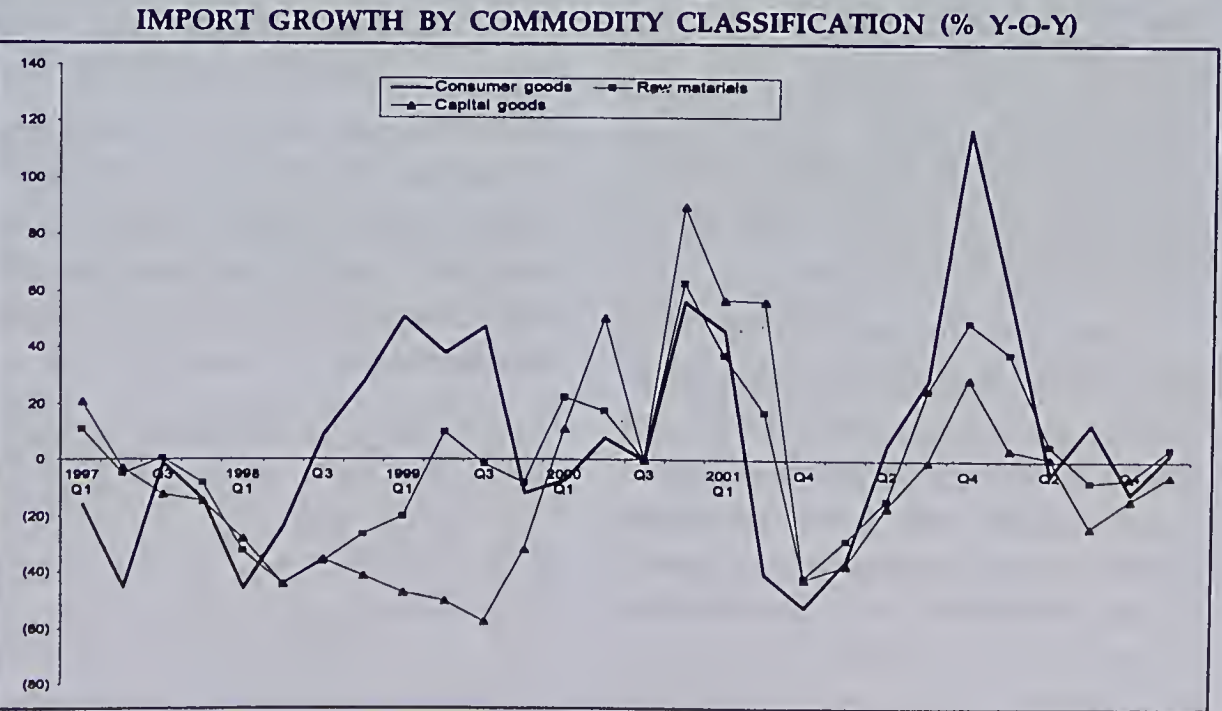


Figure 5



Source: BPS

Figure 6



Source: BPS

In the non-oil and gas exports, more detailed figures showed that manufacturing remained to be the prime mover. It exhibited a 3.7% growth, while mining increase slightly, by 1.3%. In contrast, agriculture exports declined quite significantly, by 9.8%. The top ten leading commodities, which are mainly manufacturing commodities, showed positive growths. US, Japan, and Singapore remain to be the main export destinations. The Malaysian market, which is the fourth largest market of Indonesian exports, showed a significantly high growth of 16%. Exports to China, Indonesia's fifth largest export market, declined by 4%.

We expected positive export growth in the remaining months of 2004, albeit at a small rate, due to the growing world demand and the weakening of Rupiah. However, the uncertainty due to the coming election might reduce investors' appetite for any business expansion.

In the first quarter of 2004, total import grew annually by 3.5% growth (y-o-y) to reach about US\$8.9 bn (Figure 6). Imports of consumer goods, at about 8% of total imports, exhibited a 3.1% growth. Meanwhile, imports of raw materials and intermediate inputs, which accounted for 82% of total imports, increased by 4.8%. In contrast, imports of capital goods,

about 10% of total imports, declined by 5.5%. The decline in the imports of capital goods has taken place for quite some time. The uncertainty over the business climate was the main reasons behind this trend. This trend will continue, at least until the third quarter of this year, as investors await the outcome of the presidential election(s). The recent Rupiah depreciation, which tends to continue in the next few weeks, would also slightly lessen imports in the next quarter, especially imports of consumer goods.

### Investment

In the year 2003, the net FDI was at about minus US\$0.6 bn. The year 2003 witnessed an almost US\$5 bn green-field investments. Although, they were much smaller than those prior to the crisis, they showed that investors began to eye on Indonesia. We expected the outcome of this year's election would highly determine the investment trend, not only for the whole year 2004 but also the medium and longer term.

In contrast to green-field investments, the 2003 witnessed a quite large volume of portfolio transactions of about US\$2.2 bn, mainly on the stocks and bonds. However, activities in the stock market seemed to have slowed down slightly in the first few months of 2004. In April 2004, 10%



Table 3

## KEY ASSUMPTIONS OF THE STATE BUDGETS: 2004 AND PROPOSED 2005

Key Assumptions	2004 Budget	Proposed 2005 Budget
GDP (Rp Trillion)	1,999.7	2,225.7*
Economic Growth (%)	4.8	5.4
Inflation (%)	6.5	5.5
Exchange rate (Rp/US\$)	8,600.0	8,600.0
3-month SBI interest rate (%)	8.5	6.5
World oil prices (US\$/barrel)	22.0	24.0
Oil production (million barrel/day)	1,150.0	1,125.0

Source: *Kompas*, 15 May 2004, Ministry of Finance

\* Author's calculation, a growth of 4.8% and inflation of 6.5 in 2004

of stocks traded in JSX, valued at more than Rp117 trillion, were owned by foreign investors. While in December 2003, foreign investors owned 11% of stock traded in JSX at about Rp125 trillion. We expected relatively modest foreign investors' activities in the capital market in coming month, at least until the resolution of the elections in September.

## FISCAL

The government and the budget commission of the House of Representatives (DPR) have agreed on the key assumptions for the 2005 state budget. The detailed assumptions is presented in Table 3. These assumptions anticipated the challenges posed, among others, by a stronger US economy and, conversely, a possibility of weaker Chinese economy.

The government may certainly need to revise this year's state budget

due to recent developments: oil price fluctuations and the failure to secure Rp8.5 trillion worth of the Consultative Group on Indonesia (CGI) loans. The revision is expected to take place in September.

The fuel subsidy is expected to rise from the original Rp14.5 trillion to Rp36 trillion this year. In Q1-2004, fuel subsidy expenditure has reached Rp9 trillion, due to the dramatic increase in the world oil prices. Oil prices exceeded the budget's assumption of US\$22 per barrel, reaching US\$41 per barrel<sup>4</sup> in May.

Meanwhile, the government failed to secure Rp8.5 trillion worth of CGI loans, due to its inability to complete several reform agenda. These reform failures include those related to the

<sup>4</sup>The price of Indonesia's crude oil fluctuated around US\$26-30 per barrel.

restructuring of tax and customs institutions (Directorate General of Tax and Customs) and the finalization of Investment Bill and State Financial Audit Bill. In anticipation, the government prepared some contingency plans, such as securing more cash from IBRA, tightening the expenditure or increasing the revenue.

The question is whether such measures would be feasible. IBRA has terminated its activities, excluding some minor transactions that would be finalized by the Asset Management Company. Tightening the expenditure will never be an easy thing, while the room for increasing government revenue is very small, if not impossible.

## FINANCE AND BANKING ISSUES

### Again, Banks In Trouble

Following two major bank scandals in the late 2003, the central bank closed another four ailing banks between April and May 2004. In 7 May, BI revoked the operating licenses of Bank Prasadha Utama and Bank Ratu because they did not meet the minimum Capital Adequacy Ratios (CAR) and other requirements.

Earlier in April, the Jakarta-based Bank Asiatic and the Denpasar-based Bank Dagang Bali (BDB) were closed down following the drop in their capital adequacy ratios (CAR) below the minimum of 8%. BI had, for a

while, suspected problems in these banks. BDB was accused of falsifying documents and making fictitious loans to bogus companies in early 2002. It was also accused of having concluded fictitious transactions in corporate bonds and negotiable deposit certificates with Bank Asiatic<sup>5</sup> in early 2003 involving almost Rp800 billion (US\$95 million). Excessively connected lending had also led to violations of the legal lending limit regulation.

In addition, another billion-rupiah banking scam has emerged, involving a bank formerly under IBRA, Bank Danamon. On 13 April 2004, its Medan branch reported a Rp33 billion (US\$4.1million) difference between recorded transactions and the total cash accounted for on that day. The police reacted swiftly by arresting eight suspects in which none of them are employees of the bank.

These cases again raised questions about the security of financial transactions and, more broadly, the country's banking system. Although the closures suggested that BI had done its supervisory role, the time it took to close BDB and Bank Asiatic which, since 2001, had been flouting various banking regulations, suggested a need to strengthen its supervisory capacity.

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<sup>5</sup>Owners of the two banks are related through marriage and the controlling shareholders had a widely diversified range of business interests.



## Prudential Bankruptcy Sentence

On 23 April 2004, the Central Jakarta Commercial Court ruled bankruptcy against PT Prudential Life Assurance (Prudential), a British insurance company with Rp1.56 trillion (US\$183 million) worth of assets and Rp1 trillion in premium income in 2003. The decision was based on the company's failure to pay commission fees to a former insurance agent, Lee Boon Siong. The Malaysian citizen filed a bankruptcy suit against PT Prudential Life Assurance to the Central Jakarta Commercial Court on 7 April 2004.

Many, including the Directorate General of Financial Institutions-Ministry of Finance, were appalled by the sentence. Flaws in the prevailing bankruptcy law<sup>6</sup> and technically incom-

petent judges were responsible for the decision. Two years ago, the Canadian-based Manulife Insurance was a casualty of this bankruptcy law. Although the company finally won the case in the higher court, the case has attracted the public and international attentions which led calls to amend the bankruptcy law. Legal experts point out the need to conduct solvency tests before the court can declare a company bankrupt. This amendment has yet to take place.

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<sup>6</sup>The current bankruptcy law states that a company can be declared bankrupt if it has at least two creditors, and at least one of the debts to at least one of the creditors is due and payable. The law does not directly say that a company has to be insolvent to be declared bankrupt. This clause makes it too easy to bankrupt even healthy companies.

# Revisiting the 'Asian Values'\* Argument Used by Asian Political Leaders and Its Validity

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## INTRODUCTION

**T**HE International Chinese Newsweekly (*Yazhou Zhoukan*) has hailed the Senior Minister of Singapore Lee Kuan Yew as the "new Asian warrior who hits back at the West"<sup>1</sup> and a Japanese academic describes him as "an eloquent spokesman who can talk back to the hoity-toity, self-righteous Westerners".<sup>2</sup> Throughout the 1990s, Lee Kuan Yew and Malaysian Prime Minister Mahathir Mohamad championed 'Asian values' as being at the root of Asia's remarkable growth over the previous decades. Many Asian nations wish to have it both ways: to be modern and traditional at once, to modernize but not Westernize.<sup>3</sup> Hence, 'Asian values' theory rallies opinion in most Asian countries against Western attempts to teach Asians about democracy and human rights. It is devised for the purpose of challenging "Western-style" civil and political freedoms. It also

serves as a discourse that insists on differentiating between the unified and virtuous "us" from the external "them"; in order to form self-identity. However, after the recent Asian economic crisis, the validity of the 'Asian values' argument was seriously questioned. In fact, Asian values are considered to be a source of the crony capitalism at the heart of the crisis.<sup>4</sup> This article attempts to critically examine the cultural arguments and how Asian leaders have used the 'Asian values' argument as political instruments to legitimize authoritarian rule; and how implausible their argument is.

## THE 'ASIAN VALUES' CONCEPT

After the end of the Cold War, the United States had enlarged its scope of democracy and the promotion of human rights in its foreign policy. This universalistic claim of human rights was seen by the economically dynamic and increasingly self-assertive



East Asian regimes as an ideological compliment to Western domination.<sup>5</sup> The economic success of Asia has given the region a collective sense of confidence to challenge Western hegemonic thoughts and civilizations.<sup>6</sup> 'Asian values' argument has important implication for many Asians who "harbor deep resentment against the West for its past colonialism and who have an inferiority complex in regard to Western civilization."<sup>7</sup>

Huntington describes this Asian assertiveness as the 'Clash of Civilizations', which he portends that future global conflicts will be fought not along ideological fault lines but on cultural differences.<sup>8</sup> Although this thesis has attracted criticisms within the West as well as in Asia, it has "complemented attempts by some Asian political leaders to insulate their regimes" from charges of human rights abuses and to justify authoritarian rule by championing the superiority of 'Asian values'.<sup>9</sup> The prime tactical premise of the 'Asian values' argument is cultural relativism<sup>10</sup>. The argument is only comprehensible in relation to its 'Other'. The 'West' is essentialized and seen as the homogeneous 'Other'. Consensus, harmony, unity and community are values that are commonly proposed as the essence of Asian culture and identity. These are contrasted with the values said to characterize the 'Other', namely, absence of consensus, conflict, disunity, and indiv-

idualism.<sup>11</sup> Lee Kuan Yew is convinced that the economic decline of the West was part of a larger crisis of moral values the root cause of which is an obsession with individual rights.<sup>12</sup> Similarly, Dr. Mahathir asserts that, "Many Western societies ... are morally decadent."<sup>13</sup> Hence, they believe that East Asian societies can provide an alternative development and political model that may supplant those of the faltering West.<sup>14</sup> With the concept of the fundamental differences in culture between the East and the West, 'Asian values' theory was thus constructed.

The 'Asian values' theory, in brief, makes four claims:<sup>15</sup> *First*, human rights are not universal and neither can they be globalized. They emerge differently according to the context of particular social, economic, cultural and political conditions. *Second*, Asian societies are not centered on the individual but on the family. The nation is like a big family. It supposedly comes naturally for Asians to let the combined interests of the family and the nation go before the interests of each individual. *Third*, Asian societies rank social and economic rights over individual's political rights. *Finally*, the right of a nation to self-determination includes a government's domestic jurisdiction over human rights. This implies that other nations should not interfere with the internal affairs of a state, including its human rights policy.



The concept of 'Asian values' has gained political prominence in many Asian countries especially as it is often articulated in government rhetoric and official statements. In asserting these values, leaders from the region find that they have a convenient tool to silence internal criticisms and to fan anti-Western nationalist sentiments.<sup>16</sup> Any domestic opponents can be dismissed as opposing the national interest or simply being un-Asian.<sup>17</sup> 'Western liberalism' seems to be characterized by excessive individualism and a propensity for protestation and open political conflict, thus deemed unsuitable to Asia.<sup>18</sup> Former Indonesian President Wahid was advised by Mahathir not follow this 'Western' model to run his government. Mahathir contends that ASEAN has its own solutions to resolve the economic and political crises of Indonesia, which are different from the West.<sup>19</sup>

The relevance of basic political liberties and civil rights in some Asian countries is often disputed on the ground that they hinder economic and social progress, which can be carried out more effectively "when the government's effort are not frustrated by factional opposition".<sup>20</sup> Both Lee and Mahathir constructed the 'Asian values' argument by contending that the West's attempts to impose universal standards of human rights on developing countries is a

disguised 'cultural imperialism' and an attempt to obstruct their development.<sup>21</sup> Former Chinese Premier Li Peng agreed that each country should be left to define its own concept of human rights and democracy.<sup>22</sup> The Chinese government, in its 1991 White Paper<sup>23</sup>, adopted the development-human rights trade off thesis which states, "to eat their fill and dress warmly were the fundamental demands of the Chinese people who had long suffered cold and hunger". Therefore, the government contends that the right to subsistence and economic development is a precondition to the full enjoyment of all other human rights.<sup>24</sup> The White Paper goes on to challenge the international nature of human rights by stating, "the issue of human rights falls by and large within the sovereignty of each state". Thus, to impose any human rights standards to any nation is seen as an interference of its internal affairs.

## 'ASIAN VALUES' ADVOCATES

In advocating 'Asian values', traditions are being invented in many new Asian nations to support a paternalistic type of authority.<sup>25</sup> 'Asian values' advocates assert that a nation is like a big family, the government is seen as the unchallengeable 'father' who is obliged to exercise both the disciplinarian and custodial roles, and the society is deemed to be the children who ought to obey the father in all cir-



cumstances.<sup>26</sup> These governments introduced traditional patriarchal 'family values' into modern states in order to strengthen their paternalistic rule and to guard against the influence of "Western hedonism".<sup>27</sup> Hence, state fatherhood legitimizes Asian governments to intervene into the daily affairs of individuals and families such as their sexuality,<sup>28</sup> marriage and reproductive rights by implementing fertility control and gender policies in order to achieve national development.<sup>29</sup> This intrusion into civil society is justified by affirming the claim of 'Asian values' that social and economics rights of the nation go before the individual rights.

'Asian values' are also used to justify the governments' restrictions upon the freedom of press and media in China, Malaysia and Singapore.<sup>30</sup> The parent-state argues that it will do whatever it can to protect its ignorant children-subject from the exposure of potentially 'harmful' materials presented by the media.<sup>31</sup> In Malaysia, the government holds that media control is a necessary measure to maintain internal peace and stability given that a proportion of its population is under-educated.<sup>32</sup> Any conflicts with national ideology can be sufficient ground for the government to withdraw a broadcast license. The media are also regarded as having a responsibility to the communitarian interest.<sup>33</sup> Hence, considerable govern-

ment control and censorship are deemed necessary. Lee asserts that "the theory of the press as the Fourth Estate did not fit Singapore, which had to build one nation out of four racial groups".<sup>34</sup> Mahathir also advocates that the greatest media freedom must be consonant with the vital interests of society. He believes that, "while the individuals must have their rights, these must not extend to the point where they deprive the rights of the majority".<sup>35</sup>

Some Asian governments cite the need for political stabilization as an excuse for oppressing minorities and persecution of dissidents. They argue that 'Asian values' render criticism of a government inappropriate and undesirable.<sup>36</sup> China presents itself as a practical example of this. The Chinese government has perpetrated repeated acts of state violence when faced with domestic dissent. The Confucian tradition of parental governance remains the core feature of political interaction in China. Parental governance entails two important principles from Confucian thought. They are filial piety for children-subjects and firm benevolence for parent-officials.<sup>37</sup> Whatever dissent arises must come from "irresponsible malcontents", therefore the state has a moral obligation to remove these deviants from society and restore order.<sup>38</sup>

The 'Asian values' argument faces several serious challenges especially



after the Asian economics crisis. After the crisis, Lee Kuan Yew denied that he had given prominence to 'Asian values'.<sup>39</sup> Lee claimed that he had always advocated 'Confucian' values, demonstrating the importance of Confucian ethics as essential ingredients of East Asia's economic growth.<sup>40</sup> Although Lee argument tended to be felt strongly in sinicized East Asian societies, it was notable that Mahathir had put in a lot of effort in convincing the Malays to adopt these virtues as their own, in order to be differentiated from the West. It seems therefore dubious that if pure 'Asian values' could be devised without having to equate it with 'Confucian values'. If so, Lee's version of 'Asian values' will be especially problematic in Muslim societies such as Malaysia and Indonesia.<sup>41</sup>

Indeed, the proponents of 'Asian values' have been very selective in their approach to suit the argument to benefit their authoritarian positions.<sup>42</sup> Although Confucianism does not incorporate the idea of human rights, its basic tenets are compatible with human rights principles.<sup>43</sup> Lynn Pan noted that, "The danger does not lay in Confucian philosophy itself, but in its politicization".<sup>44</sup> In practice, the central Confucian view of filial piety and loyalty are blurred all too often into unthinking obedience and nepotism.<sup>45</sup> Yet even Confucius, whose teachings are alleged to have instilled devotion to authority among

the Chinese, condemned blind obedience to the state. When asked how one should serve a prince, Confucius replied, "Tell him the truth even if it offends him."<sup>46</sup> However, those who dare speak the truth to authoritarian governments in Asia were often threatened, beaten and jailed, exiled and even executed by offended leaders. Not co-incidentally, Confucius' teachings about paying respect and deference to one's government had been given special highlight by the Singaporean press whereas one that teaches that a vicious, man-eating tiger is less frightful than an oppressive Government had hardly been mentioned.<sup>47</sup>

## THE CONVERGING ROOTS OF 'ASIAN VALUES'

It is unjustifiable to depict Asia as Confucian civilization,<sup>48</sup> as opposed to the Judeo-Christian West. Other major traditions such as Hinduism and Buddhism have a comparable presence in Asian spiritual practices. Furthermore, Christianity has also penetrated Asia and exerted strong social and political influence, especially in the Philippines and arguably in South Korea.<sup>49</sup> Opponents of 'Asian values' argue that 'Asian values' are a convergence of all these religions and philosophies that teach about humility, tolerance, honesty and social justice.<sup>50</sup> These virtues are to be found also in other civilizations, in fact all over the world.<sup>51</sup> Further-



more, Confucian ethics such as frugality, dedication to work and competitiveness that are claimed to have brought about economic success are not uniquely "Asian" but universal values that can also be found in Western societies.<sup>52</sup> Arguing from an economics point of view, Krugman contends that, "Asian growth is mainly the result of the same things that drive growth everywhere."<sup>53</sup> Hence, critics claim that there is no such thing as a unique and superior set of 'Asian values' that the East has produced.

'Asian values' assumes to embody a concrete distinction in the cultures of East and West. Hill argues that the attribution of a set of cultural values to East and Southeast Asian societies represented a Western project known as 'reverse Orientalism' was originated by Western social scientists to contrast the recent dynamic progress of Asian development with the stagnation and social disorganization of contemporary Western economies and societies.<sup>54</sup> This contrast was subsequently adopted and further advocated by Asian leaders to serve their political legitimacy. In promoting 'Asian values' they assert Asian cultural uniqueness based on the dualism of Asia as the Orient and the West as the Occident, which was ironically a construct of Western imperialist.<sup>55</sup>

Said claims the Orient as a 'European invention' that helps to 'define the West' as its contrasting image<sup>56</sup>.

By changing the "evaluative connotation" of Orientalism from negative to positive but keep its "cognitive content" unchanged,<sup>57</sup> 'Asian values' theory is constructed. Like Orientalism, 'Asian values' serve as a discourse that differentiates between the unified and virtuous "East" from the decaying "West", in order to form self-identity.<sup>58</sup> This dualism also enables Asian leaders to reject civil and political rights as being specifically Western and culturally inadequate to the Asian context and make charges of "cultural imperialism" in response to Western interference of their human rights abuses.<sup>59</sup>

It is crucial to understand that 'Asian values' are not embraced by all Asian leaders. Asian leaders such as the Dalai Lama, Lee Teng Hui, Aung San Suu Kyi, and Abdurrahman Wahid have declared their rejection of the illiberal and anti-democratic elements of the "Asian values" argument.<sup>60</sup> Pertierra notes that states with a strong tradition of civil society such as the Philippines articulate different values from authoritarian states such as Singapore, Malaysia and China.<sup>61</sup> Similarly, Ng argues that freedom of speech and media have been essential tools for monitoring government policies and performance in Hong Kong.<sup>62</sup> She contends that, "Government intolerance of opposition is without doubt the one thing the people will refuse to tolerate", a paternalistic



government is less than real possibility for Hong Kong.<sup>63</sup>

One of the reasons that 'Asian values' advocates essentialize the differences between the West and Asia in its social structures and economical development is to deny the need for Asians to have individual rights. They claim that Asian societies were structured around duties, not rights. And a society based on duties is communitarian while a rights-based society is individualistic.<sup>64</sup> This assertion often overstates the 'individualism' of Western society. Ironically, their criticisms of Western society and attacks on liberalism are, in many respects, similar to the critiques of liberalism by Western conservatives.<sup>65</sup>

Ghai contends that even within Western liberalism, "there are strands of analysis which assert the claim of the community".<sup>66</sup> As the common good takes precedence over individual rights, Asian leaders contend that there is no need for governments to respect rights of individuals.<sup>67</sup> Jiang Zemin argues that the "right of survival of China's population is more important than political rights"<sup>68</sup>. However, to reduce human rights to a guarantee of mere survival is a perverse betrayal of any plausible conception of human dignity.<sup>69</sup> A Filipino academic argues that political stability obtained through authoritarian methods is not for the Philippines, he said,

"We're not about to trade our rights for better incomes."<sup>70</sup>

## 'ASIAN VALUES' AS A MEANS OF POLITICIZING

There has been broad speculation that the paternalistic nature of Asian values lends itself to a lack of transparency within government. This has resulted in more frequent incidences of corruption when the government abuses its rights. Barr contends that it is ironical that in Singapore, Lee claims that 'Asian values' upholds the virtue of clean government, while in Indonesia they have been used implicitly to defend nepotism and crony capitalism.<sup>71</sup> The national ideology of Indonesia, *Pancasila*, has also played a critical role in delegitimizing non-state political organizations.<sup>72</sup> Hence it can be seen that 'Asian values' is not only used to differentiate an Asian value system from the Western one, but also used to enhance authoritarian regime's domestic legitimacy.<sup>73</sup>

'Asian values' discourse of paternalistic governance often provides a convenient means of justification for state oppression of political oppositions, separatists and minorities.<sup>74</sup> Political leaders often cite the need for political stabilization as excuses.<sup>75</sup> However, such an oppressive system does not dissolve but rather suppresses the discontented minorities. The hatred and indignation of the suppressed



will increase the instability of the system in the long run.<sup>76</sup> Many authoritative Asian parent-nations are not benevolent to their children-subjects as they claim. Instead, as an Indonesian academic puts it, they are more like "monsters" than "the defender of common good".<sup>77</sup> Malaysia's former Deputy Premier Anwar Ibrahim has said repeatedly, "it is altogether shameful to cite Asian values as an excuse for autocratic practices and denial of basic rights and civil liberties."<sup>78</sup> He should know, having been removed from office, jailed, beaten by the police, and convicted of sodomy and corruption charges, when his real crime was challenging the Malaysian's Prime Minister.<sup>79</sup> Anwar's case show that basic civil liberties can be disregarded and charges can be trumped up to serve the goals of the national leader. In many Asian countries "any one who dares to challenge the authority is quickly labeled as 'bad' and discredited. Conformity is of a very high order".<sup>80</sup> Thus, consensus is just another meaning of conforming to the wishes of the regime.

'Asia' itself is a difficult enough region to define geographically, let alone to cast in terms of a coherent cultural entity. It is difficult to prove that Chinese values are the same as Malaysian, or Korean values.<sup>81</sup> The fact that these values are often related with diligence and discipline do not represent the sum total of any Asian religion or culture.<sup>82</sup> Hence, this article

rejects the claim of a homogeneous body of 'Asian values' as a civilizational bloc.<sup>83</sup> While recognizing the diversity and differences in values within Asian societies, nevertheless, evidence is found showing that there are some general differences between Asian and Western cultural tendencies and dispositions.<sup>84</sup> However, this does not mean that 'Asian values' as articulated by Asian leaders are any closer to reality. Thus, Noor argues that, "Like the Arabian Phoenix of Mozart's opera, everyone knows about Asian values, but nobody knows where they are."<sup>85</sup> As Asian values are being politicized and conceptualized by authoritarian leaders as an ideological tool for legitimization, "fewer and fewer people seem to believe in them." It is therefore inappropriate to use the term 'Asian values' "to denote a particular set of attitudes, beliefs and institutions which all Asian people share in common", but rather to refer to the diversities which characterize Asian values as such.<sup>86</sup>

## CONCLUSION

It can be seen that 'Asian values' argument has been partly motivated by the deep resentment against the West for its past colonialism. Furthermore, Asia's economic success may well have enhanced people's self-confidence to resist the continuing Western hegemony. To deny the existence of cultural and societal differences be-



tween the East and the West is unrealistic. However, to essentialize their cultural differences in stereotypes and dichotomies represents a paradoxical reversal of Orientalism that the 'West' has allegedly contributed. Nonetheless, there should be no friction between Asians retaining their own unique characteristics and believing that all humans should be granted autonomy to exercise their individual rights. To relinquish human rights by any means is inhuman. Sadly, the 'Asian values' argument has opened a convenient door to justify some Asian governments' oppressions of minorities, abuses of human rights and restrictions of freedom on information. Hence, it could be seen that when certain values are politicized, they become instruments subject to the authorities' manipulation.

Given the wide diversity of religion, language and culture in Asia, it is doubtful that a set of common values could be devised. The proponents of the 'Asian values' argument imposed this concept upon the whole of Asia in order to give the West a holistic view of Asia. However, as not all Asian leaders support the argument, 'Asian values' as a concept is not a reality. It is merely a myth created by some Asian leaders as a political tool against challenges from both within and outside the states. Authentic human and social values cannot be imposed by authorities.

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  - 2 Cited in Clarence J. Dias, "Culture and Values: Human Rights, Workers, Communities, and their Environment", in Saskatchewan Regina, 1997 *National Foreign Conference*. 1997 Available from <http://www.ciia.org/dias.htm#values>
  - 3 Lynn Pan, "Culture Serves Politics in the Creation of a National Ideology: Playing the Identity Card", *Far Eastern Economic Review*, 9 February 1989, 30. See also, Fareed Zakaria, "Culture is Destiny - A Conversation with Lee Kuan Yew", *Foreign Affairs*, March/April 1994, 109-126. Economic development has been inevitably accompanied by the emergence of new ideas and demands, such as democracy, human rights, and social justice. However, this is seen as Westernization (distinguished from modernization) and deemed threatening to authoritarian regimes. See Rizal Sukma, "Values, Governance, and Indonesia's Foreign Policy", in Sung-Joo Han, ed. *Changing Values in Asia* (Tokyo: JCIE, 1999), 138. Tatsuo describes the act of criticizing the core values of liberal democracy as "a strategy based on economic modernization without political modernization", see Inoue Tatsuo, "Liberal Democracy and Asian Orientalism", in Joanne R. Bauer and Daniel Bell, eds., *The East Asian Challenge for Human Rights* (Cambridge: Cambridge University Press, 1999), 28. For instance, Mahathir argues that "The notion that a country must Westernize in order to modernize is ludicrous. Asian modernization occurred as an inevitable stage in our own history, not because we were Europeanized or Americanized." See Mahathir Mohamad, and Shintaro Ishihara, *The Voice of Asia: Two Leaders Discuss the Coming Century*, Trans. by Frank Baldwin (New York: Kodansha International, 1995), 77. However, the difference between modernization and Westernization is not always clear, as Hitchcock puts it,

## ENDNOTES

- \* 'Asian values' with 'inverted commas' is used throughout this article to show that this term itself is problematic. This article casts doubt on whether social values in Asia can be homogenized and essentialized as a particular set of attitudes and beliefs that all Asian people share in common, as the advocates of 'Asian values' claim. However, in one or two instances, Asian values is used without the 'inverted commas' to denote (plural/diverse) social values in Asia that can be distinguished from the (singular/homogenous) 'Asian values'.



- the most common reaction found in most Asian societies tends to be framed thus: "If we like it, it's Modern; if we don't, it's Western". See Hitchcock, David, I., *Asian Values and the United States: How Much Conflict?* (Washington, D.C.: CSIS, 1994), 8. Donnelly notes that "The most interesting arguments for an Asian way is a selective adoption of "Western" values and practices to produce an Asian version of modernity." See Jack Donnelly, "Human Rights and Asian Values: A Defensive of 'Western' Universalism" in *The East Asian Challenge for Human Rights*, Joanne R. Bauer and Daniel Bell, eds., (Cambridge: Cambridge University Press 1999), 80. "As such, the engagement with the negative aspect of modernity has always been framed against the backdrop of the conflict between East and West, Asia and Europe.", Farish A. Noor, "Values in the Dynamics of Malaysia's Internal and External Political Relations", in Sung-Joo Han, ed., *Changing Values in Asia* (Tokyo: JCIE, 1999), 167.
- 4 Paul Krugman, "Asia's Miracle is Alive and Well?", *Time* 150, no. 13 (29 September 1997)
  - 5 Peter R. Moody Jr., "Asian Values", *Journal of International Affairs* 50, Issue 1 (Summer 1996), 166.
  - 6 Wang Jisi and Zhou Sicheng, "Civilizations: Clash and Fusion", *Beijing Review* 39, no. 3, 15-21 January 1996.
  - 7 Inoue Tatsuo, "Liberal Democracy and Asian Orientalism", in Joanne R. Bauer and Daniel Bell, eds. *The East Asian Challenge for Human Rights* (Cambridge: Cambridge University Press, 1999), 28.
  - 8 Samuel Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Schuster 1996), 28.
  - 9 Garry Rodan and Kevin Hewison, "A 'Clash of Cultures' or the Convergence of Political Ideology", in Richard Robinson, ed., *Pathways to Asia: the Politics of Engagement* (St Leonards: Allen & Unwin, 1996), 29.
  - 10 See Michael Barr, "Lee Kuan Yew and the 'Asian Values' Debate", *Asian Studies Review* 24, no. 3 (September 2000): 310.
  - 11 Stephanie Lawson, "Politics and Cultural Myths: Democracy Asian Style versus the West", *The Asia-Pacific Magazine*, June 1996, 40, see also Beng Huat Chua, "Culturalisation of Economy and Politics in Singapore", in R. Robinson, ed., *Pathways to Asia: the Politics of Engagement* (St Leonards: Allen & Unwin 1996), 94.
  - 12 Cited in Chandra Muzaffar, "Debate: Asian Values", *The Asia-Pacific Magazine*, June 1996, 51.
  - 13 Mahathir Mohamad and Shintaro Ishihara, *The Voice of Asia: Two Leaders Discuss the Coming Century*, 20. Mahathir also notes that in the West, "The community has given way to the individual and his desires." The inevitable consequence, he believed, "has been the breakdown of established institutions and diminished respect for marriage, family values and elders, as well as important customs, conventions and traditions." Ibid., p. 80. The similar view of the 'Western decadence' is articulated by Kishore Mahbubani, "The Danger of Decadence", *Foreign Affairs* (Sep/Oct 1993): 10-14.
  - 14 This Asian development model is often explained by cultural factors such as Confucian ethics. See Peter L. Berger, "An East Asian Development Model?" and Hsin-Huang Hsiao, "An East Asian Development Model: Empirical Exploration", in Berger & Hsiao, eds., *In Search of An East Asian Development Model*, Transaction Books (New Brunswick and Oxford, 1988, Chapter 1 and 2. Confucianism is further celebrated as the underlying force driving Asian economic success by authors such as Tu Wei-ming and Richard Madsen. See Tu Wei-ming (ed.), 1996, *Confucian Traditions in East Asian Modernity* (Cambridge: Harvard University Press). Madsen, Richard, "After Liberalism: What if Confucianism Becomes the Hegemonic Ethic of the Twenty-first Century?", *Japan Policy Research Institute*, Working Paper No. 14, available at: <http://>



- www.jpri.org/jpri/public/wp14.html. These views are also shared by some Chinese scholars. They believe that tradition does not necessarily interfere with modernization and conclude that Asia cannot simply copy the Western model. These scholars claim that, "As it turned out, the Western model is not the only way to modernization." See Wang Jisi & Zhou Sicheng, 1996, "Civilizations: Clash and Fusion", *Beijing Review* 39, no.3 (15-21 January 1996).
- 15 The Asian values' theory has been presented in many different forms in literatures, press, media and governments' official papers and speeches. Nevertheless this article limits itself to discuss only these four fundamental claims of 'Asian values'. The four 'Asian values' claims presented here are mainly summarized from the views articulated by Asian leaders in Bangkok Governmental Declarations (1993), Vienna World Conference on Human Rights, Singapore 'Shared Values' and China White papers regarding human rights and national sovereignty. This summary is taken from Li, Xiaorong, "'Asian Values' and the Universality of Human Rights", *Report from the Institute for Philosophy and Public Policy* 16, no. 2 (Spring 1996). Available at: <http://www.puaf.umd.edu/IPPP/li.htm>.
  - 16 Ibid.
  - 17 Richard Robison, "Looking North: Myths and Strategies", in Richard Robinson, ed., *Pathways to Asia: the Politics of Engagement* (St. Leonards: Allen & Unwin, 1996), 4. When Soeharto was brought to trials, some of the ASEAN political leaders were outraged. Lee Kuan Yew condemned the action as a "big mistake". He believed that the nation's internal stability was far more crucial than a corrupt leader being brought to justice as it was seen as "un-Asian". See Kusnanto Anggoro, "Bom dan Politik Lintas Batas [The Bombings and Transboundary Politics]", *Kompas*. Available from: <http://www.kompas.com/kcm/kusnan/kus6.htm>.
  - 18 Rodan, Garry, "Debate: Asian Values", *The Asia-Pacific Magazine*, June 1996, 51.
  - 19 Kusnanto Anggoro, "Bom dan Politik Lintas Batas [The Bombings and Transboundary Politics]", *Kompas*. Available from: <http://www.kompas.com/kcm/kusnan/kus6.htm>.
  - 20 Amartya Sen, "Human Rights and Economic Achievements", in Joanne R. Bauer and Daniel Bell, ed., *The East Asian Challenge for Human Rights* (Cambridge: Cambridge University Press, 1999), 90.
  - 21 Cited in Inoue Tatsuo, "Liberal Democracy and Asian Orientalism", in Joanne R. Bauer and Daniel Bell, ed., *The East Asian Challenge for Human Rights* (Cambridge: Cambridge University Press, 1999), 30.
  - 22 Michael Barr, "Lee Kuan Yew and the 'Asian Values' Debate", *Asian Studies Review* 24, no. 3 (September 2000): 314.
  - 23 Cited in Li Xiaorong, "'Asian Values' and the Universality of Human Rights", *Report from the Institute for Philosophy and Public Policy* 16, no: 2 (Spring 1996).
  - 24 Errol P. Mendes, "Asian Values and Human Rights: Letting the Tigers Free", available at: [http://www.uottawa.ca/hrrec/publicat/asian\\_values.html](http://www.uottawa.ca/hrrec/publicat/asian_values.html). Tatsuo notes that the implication of Asian leaders is that civil and political rights are "luxuries that only developed countries can afford to enjoy", but they are not applicable to developing countries. See, Inoue Tatsuo, "Liberal Democracy and Asian Orientalism", in Joanne R. Bauer and Daniel Bell, ed., *The East Asian Challenge for Human Rights* (Cambridge: Cambridge University Press, 1999), 34.
  - 25 An invention of traditions to legitimize paternalistic states authority is noted in: Reid, Anthony, 1998, "Political 'Tradition' in Indonesia: the One and the Many", *Asian Studies Review* 22, no. 1 (March 1998): 22-37; Donnelly, 1999, "Human Rights and Asian Values: A Defensive of 'Western' Universalism", p. 87; David, 1998, "Freedom-a Eurasian Mosaic", in David Kelly and Anthony Reid, eds., *Asian Freedom: The Idea of Freedom in East and Southeast Asia* (Cambridge: Cambridge University Press, 1998), 9; and Truong, Thanh-Dam,



- "'Asian' Values and the Heart of Understanding: A Buddhist View", in Paul Lim, Josiane Cauquelin and Birgit Mayer-König, eds., *Asian Values: Encounter with Diversity* (Surrey: Curzon, 1998), 47.
- 26 Jim Jose and Christine Doran, "Marriage and marginalization in Singaporean politics", *Journal of Contemporary Asia* 27, no. 4 (1997): 475-488. Although not ascribing itself to Confucianist values, during the New Order regime, Indonesia introduced a similar concept of 'family principle' (*azas kekeluargaan*), which construes the state as a family with President Soeharto as the ultimate *bapak*, or father figure. See J. I. Suryakusuma, "The State and Sexuality in New Order Indonesia", in L. J. Sears, ed., *Fantasizing the Feminine in Indonesia* (Durham and London: Duke University Press, 1996), 94.
  - 27 This is done by introducing moral education into the school curriculum. This is evident from the introduction of five Confucian based "Shared Values" in Singapore. See C. Y. Kuo, "Confucianism as a Political Discourse in Singapore", in Tu Wei-Ming, ed., *Confucian Traditions in East Asian Modernity* (Cambridge: Harvard University Press, 1996), 294-309. In Indonesia, education was used to promote idealized family and gender models, and at the same time was used as an instrument to instill obedience and submission to the State's patriarchal authority. See Lynette Parker, 1992, 'The Quality of Schooling in a Balinese Village', *Indonesia* 54 (Oct. 1992): 95-116. See also Martha Logsdon, "Gender Roles in Elementary School Texts in Indonesia," in Madaleine J. Goodman, ed., *Women in Asia and the Pacific: Towards an East-West Dialogue* (Honolulu: University of Hawaii Press 1985), 243-262.
  - 28 Mahathir has linked homosexuality with "Western hedonism...and the rejections of religious teachings and [Asian] values". See Mahathir Mohamad, and Shintaro Ishihara, 1995, *The Voice of Asia: Two Leaders Discuss the Coming Century*, 80. This view has generally been used to justify state's repression of homosexuality. Homosexuality is outlawed in Singapore, Malaysia and China.
- In China, public homosexual behavior is prosecuted under the laws for hooliganism. See Wah Shan Chou, *Tongzhi: Politics of same-sex eroticism in Chinese societies* (New York: The Haworth Press, 2000). See also, Dennis Altman, "The emergence of gay identities in Southeast Asia" in Peter Drucker, ed., *Different Rainbows* (London: Gay Mens Press, 2000), 137-156.
- 29 In his August 1983 Singapore's National Day Rally speech, Lee Kuan Yew constructed a 'national crisis' and accused the nation's mothers of endangering the country's future by willfully distorting patterns of biological reproduction. He contended that graduate mothers in Singapore were not producing sufficient numbers of 'genetically superior' babies to secure their self-replacement in the population. He feared that within a few generations, the quality of Singapore's population would measurably decline and Singapore would lose its competitive edge in the world. To produce children was thus seen as a patriotic duty which comes before women's personal and material interests. Hence, women who did not conform (to this discourse of motherhood) were deemed anti-national and state fatherhood was justified in implementing gender policies to cope with this reproductive 'crisis'. See Geraldine Heng and Janadas Devan, "State Fatherhood: The Politics of Nationalism, Sexuality, and Race in Singapore", in *Nationalisms and Sexuality*, ed. by A. Parker, et.al. (New York & London: Routledge, 1992), 347-356. In Indonesia, the New Order regime used 'Family principle' as national ideology to encourage fertility control. See Kathryn Robinson, "Choosing Contraception: Cultural Change and the Indonesian Family Planning Programme", in Alexander, P. (ed.), *Creating Indonesian Cultures* (Sydney: Oceania Publications, 1989). See also Lynette Parker, 'Fecundity and the Fertility Decline in Bali', in Margaret Jolly and Kalpana Ram (eds.), *Borders of Being: State Fertility and Sexuality in Asia and the Pacific* (Ann Arbor: The University of Michigan Press, 2001), 178-202. Chapman also contends that Indonesia's family planning program



- has invoked people's patriotic duty to support government initiatives, intimating that to do otherwise would be selfish and unpatriotic. See, Rebecca Jane Chapman, *The Significance of Family Planning for Women in Indonesia*, Working Papers 99, Centre of Southeast Asian Studies, Monash University. Kim Dae Jung criticised Singapore's regulation of individual's actions such as chewing bubble gum, spitting, smoking and littering as an "Orwellian extreme of social engineering." See Kim, Dae Jung, "Is Culture Destiny", *Foreign Affairs* 73, no. 6, (Nov/Dec 1994): 189-194.
- 30 Nevertheless, it should be noted that in many Asian countries such as Thailand, the Philippines, Indonesia (after Soeharto), Taiwan, Japan, Hong Kong, South Korea and India, the press and media do have a substantial amount of freedom. See: Shelton A. Gunaratne, ed., *The Handbook of the Media in Asia* (New Delhi: SAGE Publications India, 2000). Available at: <http://www.mnstate.edu/gunarat/overview.htm>
  - 31 For instance, Singapore Prime Minister, Goh Chok Tong, in his 1994 National Day Rally speech, referred to a *Sustagen* advertisement on Singapore television which showed a Chinese boy with a clenched fist saying 'Come on, Dad. If you can play golf five times a week, I can have *Sustagen* once a day'. The Prime Minister argued that an advertisement like this was inappropriate for the national values of Singapore because it would encourage children to be insolent to their parents. In condemning such a commercial as not virtuous, the paternalistic Singaporean government implied an expectation of filial piety from its children-subjects. See *The Straits Times*, 26 August 1994.
  - 32 Shelton A. Gunaratne, ed., *The Handbook of the Media in Asia* (New Delhi: SAGE Publications India, 2000).
  - 33 See Richard Robison, "Looking North: Myths and Strategies", in Richard Robinson, ed., *Pathways to Asia: the Politics of Engagement* (St Leonards: Allen & Unwin, 1996), 6. Lee Kuan Yew argues that Asians have "little doubt that a society with communitarian values where the interests of the society take precedence over that of the individual suits them better than the individualism of America". Cited in Joanne R. Bauer and Daniel A. Bell, *The East Asian Challenge for Human Rights* (Cambridge: Cambridge University Press, 1999), 6.
  - 34 Gunaratne, *The Handbook of the Media*.
  - 35 Mohamed Mahatir, "Nobody Elects the Press", *Far Eastern Economic Review*, 7 April 1994.
  - 36 Martin Lee, "The Myth of Asian Values", in Chee Soon Juan, *To be Free: Stories from Asia's Struggle against Oppression* (Clayton: Monash Asia Institute, 1998), ii.
  - 37 L.H.M. Ling, "Rationalizations for State Violence in Chinese Politics: The Hegemony of Parental Governance", *Journal of Peace Research* 31, no. 4 (November 1994), 396.
  - 38 Ibid. The 1989 Tiananmen Massacre and the frequent suppression of the separatist movements in Tibet and Xinjiang were two of the many brutal incidents where the authority of the angry parents was demonstrated towards their disobedient children by violently disciplining them in order to restore stability and to deter any possible future dissents.
  - 39 Lee held that the Western journalists, particularly democracy and human rights activists, were responsible for exaggerating the argument. See: Lee Kuan Yew & Terry McCarthy, "In Defense of 'Asian Values'", *Time* 151, no. 10, 16 March 1998.
  - 40 Michael Barr, "Lee Kuan Yew and the 'Asian Values' Debate", *Asian Studies Review* 24, no. 3 (September 2000), 313.
  - 41 Francis Fukuyama, "Asian Values in the Wake of the Asian Crisis", 1999. Available at: <http://www.idep.org>.
  - 42 For one such example, see Fareed Zakaria, "Culture is Destiny - A Conversation with Lee Kuan Yew" (1994), where Lee interpreted the Confucian maxim *xiushen qi jia zhi guo pingtianxia* as to encourage individual's self-reliance rather than dependence on a welfare state. However, this same aphorism is interpreted by Kim Dae Jung as an emphasis of the "role of government and



- stresses the ruling elite's moral obligation to bring about peace under heaven," See Kim Dae Jung, "Is Culture Destiny?", 1994, 189-194.
- 43 Joseph Chan, "Asian Values and Human Rights: An Alternative View", 1998, 37.
  - 44 Lynn Pan, "Culture Serves Politics in the Creation of a National Ideology: Playing the Identity Card", *Far Eastern Economic Review*, 9 February 1989, 31. This irony is well presented when Confucianism is selectively adopted by Lee Kuan Yew to justify a certain kind of political authoritarianism while Lee Teng-hui has used Confucianism to prove just the opposite - that there are precedents for democracy in Confucian thought. This is noted in Francis Fukuyama, "The Illusion of 'Asian Exceptionalism'", in Plattner Diamond and F. Marc, eds., *Democracy in East Asia* (Baltimore and London: The Johns Hopkins University Press, 1998), 226.
  - 45 Yang Baoyun refers this as the "negative influences" of Confucianism. See Yang Baoyun, "The Relevance of Confucianism Today", in Josiane Cauquelin, Paul Lim and Brigit Mayer-Konig, eds., *Asian Values: Encounter with Diversity* (Surrey: Curzon, 1998), 86-88. However, I do not necessarily agree with this attribution of Confucianism as I think the problem does not lie in Confucianism as such, but the willful distortion in the interpretation of Confucianism by the autocratic regimes.
  - 46 Martin Lee, "The Myth of Asian Values", in Chee Soon Juan, *To be Free: Stories from Asia's Struggle against Oppression* (Clayton: Monash Asia Institute, 1998), ii.
  - 47 Soon Juan Chee, *Dare To Change: An Alternative Vision for Singapore* (Singapore: Singapore Democratic Party, 1994), 119.
  - 48 Lee Kuan Yew states that the Confucian philosophy of *xiushen qijia zhiguo pingtianxia* as the "basic concept of our [Asian] civilization." See Fareed Zakaria, 1994, "Culture is Destiny - A Conversation with Lee Kuan Yew". This dualism is also espoused by Huntington (1996). In his book, *The Clash of Civilization and the Remaking of World Order*, he envisions a dichotomy between competing civilizations, the declining 'West' on one hand and an emerging coalition of an Islamic-Confucianist bloc on the other. See pp. 45-48.
  - 49 Inoue Tatsuo, "Liberal Democracy & Asian Orientalism" in *The East Asian Challenge for Human Rights*, 42.
  - 50 Ziauddin Sardar, "Asian values are human values", *New Statesman*, 17 April 1998, 26-27.
  - 51 Jose Ramos-Horta, "Human Rights and Morality Vs Pragmatism and Real Politics: The 'Asian Way'?" Available at: <http://www.tmx.com.au/join/articles/hortas.htm>.
  - 52 Professor Mendes contends that, "Those who may have been expecting Asian Values to be substantially different from what is valued in Western countries like Canada may be rightfully surprised. Many, if not most of the values described above, are also deeply held by individuals and communities across the political and socio-economic spectrum in Canada, especially among the conservative components of Canadian society. Indeed, even in the United States, the platforms of both the Democratic and Republican Presidential candidates during the 1996 election campaign were attempting to outdo each other in being seen as the champion of many, if not most, of the values ascribed to the core components of Asian Values, especially on the importance of family values and the need for more effective law and order." See Errol P. Mendes, "Asian Values and Human Rights: Letting the Tigers Free", available at: [http://www.uottawa.ca/hrrec/publicat/asian\\_values.html](http://www.uottawa.ca/hrrec/publicat/asian_values.html). See also "The Asian Way: Regional Thinkers Put Homegrown Ideas Before the World", *Asiaweek*, 2 March 1994, 23 & 24. Michael Hill also notes that Confucian ethics play a similar role to that of 'Protestant work ethic' or 'Victorian virtues' played in the West in the past. See Michael Hill, *'Asian Values' as Reverse Orientalism: The Case of Singapore*, Working Papers No. 150 (Department of Sociology, National University of Singapore, 2000), 19.



- 53 Paul Krugman, "Asia's Miracle is Alive and Well?", *Time* 150, no. 13, 29 September 1997. Francis Fukuyama (1999), in "Asian Values in the Wake of the Asian Crisis", argues that Asian economic success was not brought about by Asian's unique culture, but by its distinctive institutional design and regulatory systems. Similarly, he believes that Asian crisis can be better explained by conventional economics rather than culture. Available at: <http://www.idep.org>. This view is shared by other scholars who view that culture is simply a device manipulated by political elites to legitimize their hold on power. This school of thought is more interested in examining the role of the state and the relationships between classes. For one of such arguments (that is similar to Fukuyama's above assertion) see Linda Weiss, "Sources of the East Asian advantage: an institutional analysis", in Richard Robison, ed. *Pathways to Asia: the Politics of Engagement* (St Leonards: Allen & Unwin, 1996), 171-204.
- 54 Michael Hill, 'Asian Values' as *Reverse Orientalism: The case of Singapore*, Working Papers No. 150, Dept of Sociology, National University of Singapore, 2000, 6.
- 55 Tatsuo, "Liberal Democracy and Asian Orientalism" 37.
- 56 Edward W. Said, *Orientalism: Western Conceptions of the Orient* (London: Penguin Books, 1978), 2.
- 57 Tatsuo, "Liberal Democracy and Asian Orientalism", 39 and Hill, 'Asian Values' as Reverse", 1.
- 58 Mahbubani (cited in Milner, 1999) contends that Asian leaders are putting "an effort to define their own personal, social and national identities that enhances their sense of self-esteem in a world in which their immediate ancestors had subconsciously accepted the fact that they were lesser beings in the Western universe". Milner argues that the 'Asian values debate must be emphasised as an episode in the long-term, post-colonial cultural project of nation's self-identity search. See Milner, Anthony, 1999, "What's Happened to Asian Values?", in *Beyond the Asia Crisis*, David Goodman & Segal Gerald (eds.), available at: <http://www.anu.edu.au/asianstudies/values.html>.
- 59 Tatsuo argues that in rejecting civil and political rights as being specifically Western, "they ascribe the same homogeneous cultural essence to Asia that Orientalists utilize to contrast Asian society with the Western self-portrait of "Civil Society". See Tatsuo, "Liberal Democracy and Asian Orientalism", 39.
- 60 Noted in Michael Barr, "Lee Kuan Yew and the 'Asian Values' Debate", 315. Amartya Sen asserts that acknowledgement would have to made to the contributions of national leaders such as Mahatma Gandhi or Dr. Sun Yat Sen, who were, "cogently vocal in defense of the widest forms of democracy and civil rights." See, Amartya Sen, "Human Rights and Economic Achievements", in Joanne R. Bauer & Daniel Bell, eds., *The East Asian Challenge for Human Rights* (Cambridge: Cambridge University Press, 1999), 98. According to Aung San Suu Kyi, 'People's participation in social and political transformation is the central issue of our time'. Cited in Garry Rodan, "Debate: Asian Values", *The Asia-Pacific Magazine*, June 1996, 51. Yet she is hardly an unqualified champion of liberal individualism.
- 61 Raul Pertierra, "'The Market' in Asian Values", in Josiane Cauquelin, Paul Lim, and Brigit Mayer-Konig, eds., *Asian Values: Encounter with Diversity* (Surrey: Curzon, 1998), 135.
- 62 Margaret Ng, "Why Asia Needs Democracy: A View from Hong Kong", in Plattner Diamond and F. Marc, eds., *Democracy in East Asia* (Baltimore and London: The Johns Hopkins University Press, 1998), 15.
- 63 Ng also argues that, "The "Singapore model" for Hong Kong was a paternalistic government managed by the local elite, focuses on business and on being on good terms with the Chinese authorities. For better or worse, this "model" has never received more than the most fleeting support from the people of Hong Kong, and even that has been expressed only in words rather than action." Ibid, 13 & 15.



- 64 Yash Ghai, "Rights, Duties and Responsibilities", in Josiane Cauquelin, Paul Lim and Birgit Mayer-Konig, eds., *Asian Values: Encounter with Diversity* (Surrey: Curzon, 1998), 29.
- 65 Gary Rodan and Kevin Hewison, "A 'Clash of Cultures' or Convergence of Political Ideology?", in *Pathways to Asia: the Politics of Engagement*, Richard Robison (ed.), (St Leonards: Allen & Unwin, 1996), 30.
- 66 Ibid, 35. See also Amitai Etzioni, ed., *Rights and the Common Good: The Communitarian Perspective* (New York: St. Martin's Press, 1995).
- 67 Yanshong Wang, "Chinese Values, Governance, and International Relations: Historical Development and Present Situation", in Sung-Joo Han, ed., *Changing Values in Asia: Their impact on Governance and Development* (Tokyo: JCIE, 1999), 51 & 52.
- 68 Cited in Jack Donnelly, "Human Rights and Asian Values: A Defensive of 'Western' Universalism", in Joanne R. Bauer, & Daniel Bell, eds., *The East Asian Challenge for Human Rights* (Cambridge: Cambridge University Press, 1999), 75.
- 69 Ibid.
- 70 Cited in "The Asian Way: Regional Thinkers Put Homegrown Ideas Before the World", *Asiaweek*, 2 March 1994, 23 & 24.
- 71 Barr, "Lee Kuan Yew and the 'Asian Values' Debate", 313. Nepotism resulted from Chinese family values is also evident in Hong Kong. See Siu-lun Wong, "The Applicability of Asian Family Values to Other Sociocultural Settings", in Pete L. Berger & Hsin-Huang Hsiao, eds., *In Search of an East Asian Development Model* (New Brunswick & Oxford: Transaction Books, 1988), 134-154.
- 72 Niels Mulder, 'The Ideology of Javanese-Indonesian Leadership', in Hans Antlov & Sven Cederroth, eds., *Leadership on Java: Gentle Hints, Authoritarian Rule* (Richmond: Curzon Press, Nordic Institute of Asian Studies, 1994), 57-72.
- 73 Stephanie Lawson, "Politics and Cultural Myths: Democracy Asian Style versus the West", *The Asia-Pacific Magazine*, June 1996, 39.
- 74 This includes homosexual minorities. According to Wang, the "Confucian's political ideal of rulers loving the people and ruling benevolently, and the people obeying the rulers and being grateful for the benefits that the benevolent rule brought to them, proved to be difficult to implement." Very few authoritarian regime shows benevolent rule while despotism is more characteristic. See: Yanshong Wang, "Chinese Values, Governance, and International Relations: Historical Development and Present Situation", in Sung-Joo Han, ed., *Changing Values in Asia: Their impact on Governance and Development* (Tokyo: JCIE, 1999), 24.
- 75 Tatsuo, "Liberal Democracy & Asian", 44.
- 76 This was reflected in the East Timorese' fight for independence, and separatist movements in West Papua after several decades of oppressions from the central Indonesian regime.
- 77 Goenawan Mohamad, *Sidelines: Writings from Tempo, Indonesian Banned Magazine*, trans. by Jennifer Lindsay (Melbourne: Highland House, 1994), 47.
- 78 Cited in Louis Kraar, "What Pacific Century?", *Fortune* 140, no. 10, 22 November 1999.
- 79 The attacks on Anwar were a stark reminder that sexual 'misconduct' remains a powerful weapon for government's social and political control. More generally, Asian homosexual minorities fall victim to discrimination and repression not because they have committed anything wrong but because they are made scapegoats by the state in the construction of a unified and virtuous national identity which deems same-sex acts as Western corruption. See: Carl F. Stynchin, *A Nation by Rights* (Philadelphia: Temple University Press, 1998).
- 80 Chee, *Dare To Change: An Alternative*, 35.
- 81 Fukuyama, "Asian Values in the Wake of Asian Crisis". David Hitchcock's 1994 survey of the value preferences of officials, business people, scholars and professionals from the United States and eight East Asian societies is not supportive of the 'Asian values' case as it con-



firms that genuine differences in value perspective exist in the region. See David I. Hitchcock, *Asian Values and the United States: How Much Conflict?* (Washington, D.C.: CSIS, 1994).

82 Chandra Muzaffar, "Debate: Asian Values", *The Asia-Pacific Magazine*, June 1996, 52.

83 An 'Islamic-Confucianist civilization bloc' as oppose to Western civilization was first articulated by Huntington. This dichotomy between East and West was subsequently though implicitly adopted by Asian leaders to argue that there is a homogeneous 'Asian values' that differentiate between the virtuous Asians and the decadence Westerners as shown earlier in this article.

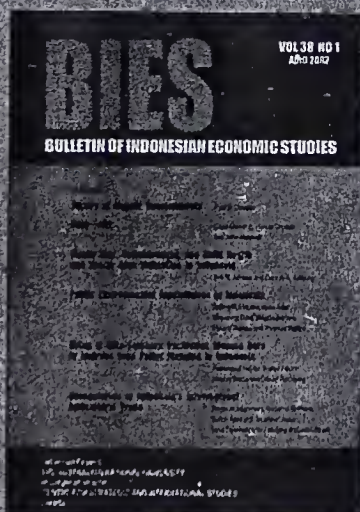
84 Hitchcock reports that a strong majority of Asian respondents favored an 'orderly society' and 'harmony', which were values given little attention by Americans. See David I. Hitchcock, *Asian Values and the United States: How Much Conflict?* (Washington, D.C.: CSIS, 1994), 38-41.

See, Josiane Cauquelin, Paul Lim, and Birgit Mayer-Konig, "Understanding Asian Values", in Josiane Cauquelin, Paul Lim, and Birgit Mayer-Konig, eds., *Asian Values: Encounter with Diversity*

(Surrey: Curzon, 1998), 1-19. See also, Bilahari Kausikan, "The 'Asian Values' Debate: A View from Singapore", in Plattner Diamond and F. Marc, eds., *Democracy in East Asia* (Baltimore: The Johns Hopkins University Press, 1998), 17-27. Joseph Chan, "Asian Values and Human Rights: An Alternative View", in Plattner Diamond and F. Marc, eds., *Democracy in East Asia* (Baltimore: The Johns Hopkins University Press, 1998), 28-41. Sung-Joo Han, "Asian Values: An Asset or a Liability", in Sung-Joo Han, ed., *Changing Values in Asia* (Tokyo: JCIE, 1999), 3-12. Farish A. Noor, "Values in the Dynamics of Malaysia's Internal and External Political Relations", in Sung-Joo Han, ed., *Changing Values in Asia* (Tokyo: JCIE, 1999), 146-176.

85 Farish A Noor, "Values in the Dynamics of Malaysia's Internal and External Political Relations", in Sung-Joo Han, ed., *Changing Values in Asia* (Tokyo: JCIE, 1999), 171-173.

86 Wing Meng Ho, *Asian Values and Modernization - A Critical Interpretation*, Occasional Paper No. 1, Dept. of Philosophy, University of Singapore, 11.



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# Regional Empowerment and Ethnic Conflict in North Sumatra

*Budi Agustono & Timo Kivimäki<sup>1</sup>*

## COMPETITION, MOBILIZATION AND CONFLICT

**N**ORTH Sumatra has never been immune to problems of violence before. The nationalist struggle against the Dutch in Sumatra was, at times, very violent as has been described by Michael Langenberg (Langenberg 1976). The political divides between the supporters of President Soekarno and Vice President Hatta in the mid 1950s caused biggest turbulence in the Moluccan Islands and North Sumatra, as well as in some parts of Java.<sup>2</sup> During Soeharto's

period North Sumatra experienced several violent episodes related to land and fishing rights (Shiraishi 1999: 64). In just four months after the fall of Soeharto the number of people arrested in riots in North Sumatra registered by the police was 1,372, which was next only to the capital city, Jakarta (statistics of the Indonesian Police 1998). The levels of criminal violence in Medan and its vicinity are also considered high. North Sumatra is close to Aceh and is in many respects similar to Indonesia's other trouble spots, the Moluccan Islands, West Kalimantan and Papua, where ethnicity also plays a role in creating social and political divides and contributing to violent mobilization. Nevertheless, the question is: Why has North Sumatra not experienced any large-scale ethnic conflict? Will this kind of

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<sup>1</sup>The introduction, comparative chapter (What lies ahead) and the conclusions as well as the structure of this article are done by Timo Kivimäki, while most of the material of other chapters are by Budi Agustono. The chapters on SARA and decentralization code have been written together by Agustono and Kivimäki.

<sup>2</sup>Due to the American hand in this incident, the archival papers of a senior adviser on Indonesia to the US government, Guy Pauker, and the American Ambassador Howard P. Jones offer good accounts on this

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matter. (See Jones Papers, Subject file, Box 54, Hoover Institute Archives, Stanford University, and Pauker Papers, Box 30, Hoover Institute Archives, Stanford University and Feith 1967.

conflict lurk around the next corner? How should the decentralization be implemented there in order to avoid North Sumatra becoming the 2nd Aceh.

This study looks into the change of the setting of North Sumatran political economy from centralized to decentralized. It outlines the ethnic discursive strategies of legitimization and mobilization of pursuit of power during the centralized authoritarian regime and later during the more democratic, decentralized setting. The aim of this analysis is to see how the risks of violent ethnic conflicts are affected by the change from authoritarian centralism into democratic decentralization in North Sumatra. Finally, this study aims at explaining why ethnic competition has not led to ethnic warfare.

The section on changing conflict potential will first analyze the traditional, historical setting of ethnic agency in North Sumatra and move from there to the analysis of the centralized setting of Soeharto era. This will be followed by the analysis of the emerging popular organization and decentralized setting, motivations grievances and opportunities for violent mobilization to the new setting and to the transition. The following section will discuss the non-violent ways of competition and expression grievances as possible alternatives to conflict behavior and

make conclusions on the current potentials of conflict in North Sumatra.

While the main source of ethnic diversification in the province seems related to historical differences in economic roles and interests of groups, it also seems that self-interest, economic and political, has also determined the introduction of ethnicity in politics and conflict in the province. In this sense, the experiences of North Sumatra follow the pattern explained by the opportunist, rational school of conflict.<sup>3</sup> The study mainly found that while the ethnic diversity of North Sumatra might give rise to smaller conflicts, it also helps bring the levels of violence down. When analyzing the power battles between ethnic organizations as opportunistic behavior, the case of North Sumatra shows how difficult it is in a heterogeneous society to mobilize large-scale resistance or competition. Greed—veiled with discursive strategies that aim at legitimizing the elite pursuit for wealth and power—motivates religious, political and ethnic elites to mobilize along ethnic lines, but in the absence of bipolarity of two large competing ethnic groups, elites fail to mobilize large groups for their purposes.<sup>4</sup> Also the elites tend to invest

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<sup>3</sup>See for example, see Fearon 1995, Lake & Rotchild 1997; Posen 1993; Tanter 1998; Tilly 1976; Collier & Hoeffler 1998 & Collier 2000.

<sup>4</sup>For this interpretation of conflicts, see Collier & Hoeffler 1998 & Collier 2000.



in the mobilization process only locally, since the ethnic diversity tends to render most projects for larger scale political domination unfeasible.

## TRADITION OF ETHNIC FRAGMENTATION

The province of North Sumatra has nine ethnic groups, each of which has its own areas scattered in the regencies of North Sumatra. Mandailing and Angkola are in South Tapanuli and Madina regencies. Toba Bataks live in the North Tapanuli and Toba Samosir regencies, Pak-Paks live in Dairi regency, Simalunguns in Simalungun regency. Karo Bataks are in Tanah Karo regency and Malays mostly live in Langkat, Deli Serdang, Asahan regencies and Medan. Javanese are mostly engaged in former colonial plantation enclaves like Medan, Langkat, Deli Serdang, Simalungun and Asahan regencies, whereas Minangkabau are mostly in urban areas.

While Mandailing, Javanese Angkola, Malay, and Minangkabau are Muslim, Toba Pak-Pak and Karo Batak are primarily Christian. Prior to the Indonesian independence the host population of North Sumatra were Malay, Simalungun and Karo Batak.<sup>5</sup>

From the middle of the nineteenth century up to 1946, there were four Malay Sultanates in the region; Deli, Serdang, Langkat and Asahan. When the Dutch colonized North Sumatra, pioneered by Dutch businessman, hundreds of plantations established by colonial investors. The emergence of plantations brought financial benefits to Malay's nobilities.<sup>6</sup> By giving land concession to the colonial investors the Malay Sultanates were able to build their power, prestige, dignity and big palaces. In the colonial structure Malay's sultanates power were politically under controlled by the Dutch administration. Though they were politically powerless Sultanates became a source of Malay's civilization. As a host population the Malay had privileges and the right to till harvested tobacco land (*tanah jaluran*).<sup>7</sup> The migrants (Javanese, Mandailing, Minangkabau, and Toba Batak) were not allowed to it. Because Sultanates were power holders in North Sumatra, they monopolized all aspects of society in their own territory.

The emergence of hundreds of plantations attracted many laborers from various regions to North Sumatra. When plantations were opened for the first time planters, mostly

<sup>6</sup>Ibid., 94.

<sup>7</sup>For this see, Budi Agustono, *Badan Perjuangan Rakyat Penunggu Indonesia Versus PTPN II: Sengketa Tanah di Sumatra Utara*. Bandung: AKATIGA, 1997, 35-67.

<sup>5</sup>Michael Langenberg, "National Revolution in North Sumatra: Sumatra Timur and Tapanuli, 1942-1950." Dissertation: Sydney University, 1976, 68-93.

Dutch, tried to persuade, with poor results though, the host population, particularly the Malay, to become laborers. To overcome the lack of work force, planters sought laborers from outside of this region by recruiting Chinese from the Malay Peninsular and even from mainland China to work in the plantations (Broesma 1919: 228-249).

The presence of plantations created the development of infrastructure (roads, ports, banking and entertainment establishments) in North Sumatra. Medan which was initially designed and developed smoothly to appropriate economic surpluses (tobacco produce) from the hinterland to the Netherlands, rapidly became a colonial metropolitan city and later on, the capital of North Sumatra. Though, it was developed by the colonial planters, its development could not be separated from the Chinese laborers who played an important role in building modern infrastructures. Because of economic and political reasons, by the end of the nineteenth century the number of Chinese laborers was slowly reduced by the planters. Instead of Chinese, they began to recruit Javanese from Java Island as laborers (Bremen 1989: 131-175). This way gradually the Javanese who overtook in numbers the Chinese in North Sumatra's plantations.

When the Sultanates became the center of Malay civilization, the Malay

held higher social status than migrants. They were close to, and politically protected by, the Sultanates. They had the right to use harvested tobacco land as source of income. However, many Malays did not use their harvested tobacco land, they often leased their land rights mainly to the Javanese. The booming of plantation economy transformed North Sumatra into a lucrative destination for migrants.

Unlike Chinese and Javanese who were recruited as laborers, the Mandailing from South Tapanuli, with better educational background worked for Malay *kerajaan* (royal) bureaucracy as clerks, teachers or religious preachers when migrated to North Sumatra. As Moslems who possessed religious knowledge, they were easily accepted by Malay Sultanates. That was why the Mandailing had good position in Malay royal bureaucracy.

Unlike the Mandailing who preferred to work for royal bureaucracy, the Minangkabau tended to become traders or occupations which were not related to bureaucracy. Religiously the Minangkabau people are mostly Islamic modernists (Muhammadiyah), whereas the Mandailing are Islamic traditionalists. At that time the Malay Sultanates followed Islamic traditionalist lines. Due to their different religious orientations, the relationship between the Minangkabau and the Sultanates was not as good as the



Mandailing's. In 1930s there was religious tension between the traditionalists and modernists.

The ethnic division of labor began to change when the Dutch government was defeated by Japan in 1942. The migrants tilled the plantation lands which were regarded as the Malay's because of the Japanese policy to mobilize migrants to manage the lands by planting, rice, corn and vegetables for political purposes. In 1942 the Toba Batak who were from poverty stricken areas in the Tapanuli began to migrate massively to North Sumatra and occupied plantation lands. Seeing their land occupied by migrants, the Malay supported by the Sultans tried to fight the migrants. The ethnic tension reached climax during the so-called social revolution in 1945-49 (Langenberg, op. cit.: 427-487). The accumulated ethnic hatred exploded and hundreds of Malay nobles' relatives were detained, tortured, raped and butchered. This event destroyed the sultanate/kingdom and Malay hegemony in less than ten days and caused the Malays lost their power. Since then, the *kerajaan* —kingdom as a source of Malay civilization— has lost its political power in North Sumatra (Budi Agustono 1993).

When independence was declared, plantations in North Sumatra became an arena of struggle for resources particularly among the people's militias (*laskar*). Since the plantations were

regarded as source of wealth and income, people's militias needed plantation produces to get armaments to defend the independence. Rubber was brought by people's militias to Malay Peninsular and bartered with arms. At that time they were well armed and became warlords in their regions. Besides, people's militias were divided into ethnic lines. If the leaders were Javanese, Karonese, Bataknese, their followers were usually of the same ethnic background. Later the role of ethnicity in the organization slowly faded away and the different militias were united into people's army (*Tentara Keamanan Rakyat*).

In 1958 the Toba Bataks from North Tapanuli began to enter massively North Sumatra. They had a tradition of pig raising. This created friction between Tobanese and other Bataknese as well as the Javanese and the Malay. The non Toba Batak groups who deeply resented the Toba Bataks movement to North Sumatra believed that these animals were only the cause created by the Batak to rout the Javanese and the Malay in the struggle for land.<sup>8</sup>

At present the Javanese partly live in the plantation areas. They are laborers, peasants, policemen, soldiers,

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<sup>8</sup>Clark E. Cunningham, op. cit., p. 133. At present, the Toba Batak keeps raising pig in the villages but in the city, pig raising was forbidden by government.



artisans, civil servants, businessmen, and lecturers. Because they have long been trapped in the plantation culture, their social mobilization is low. The Mandailing are businessmen, religious preachers, policemen, soldiers, civil servants, traders, lecturers and professionals. The Toba Bataks are civil servants, lecturers, policemen, soldiers, professionals, petty traders, and used clothes peddlers. The Karo Bataks are businessmen, civil servants, lecturer, petty traders, traders of used clothes, hotel owners, policemen, soldiers and professionals. The Malays are mostly civil servants, lecturers, and sometimes professionals. The Pak-Pak/Dairis are traders, lecturers, policemen, civil servants, and some professionals. The Minangkabau are petty traders, tailors, businessmen, civil servants, policemen, soldiers, religious preachers, and professionals. While the Acehnese are businessmen, petty traders, few civil servants and businessmen, the high ranking officials in provincial offices are mostly Mandailing, Bataknese, Karonese, Simalungun, Pak-Pak/Dairi Batak, Malay, Javanese, and Minangkabau.

Each ethnic group has its own voluntary, religious and clan associations. The Mandailing has Alwashliyah, the Minangkabau has Muhammadiyah, The Toba Batak has *Huria Kristen Batak Protestan* (HKBP, Bataknese Christian Church) and the Karonese has *Gereja Batak Karo Protestant* (GBKP,

Karonese Christian Church). Also each ethnic group has its hereditary-based clan association.

## ETHNIC COMPETITION

None of the ethnic groups of North Sumatra has ever had a dominant position during the Indonesian independence. Even though the Mandailing are a majority in provincial government offices, today they do not dominate provincial bureaucracy in any absolute terms. The second largest ethnic group in provincial bureaucracy is Toba and then Karonese Simalungun, Pak Pak/Dairi Batak, Minangkabau, Javanese, Malay and Acehnese. Neither are youth organizations, or influential thugs (*preman*) organizations, Constitutional Youth (*Pemuda Pancasila*) and Working Youth League (*Ikatan Pemuda Karya/IPK*) dominated by a single ethnic group. In these organizations ethnicity is relevant; and ethnic groups seek representation among the functionaries of these organizations.

Hereditary clan associations and voluntary and religious ethnic associations play significant role not only as place for adjustment in migratory areas but also as mechanisms of survival in the competition for resources.<sup>9</sup>

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<sup>9</sup>For strategies of adaptation among migrants in Medan and ethnic based upon settlements see, Usman Pelly, op. cit., 83-249.



In addition, the struggle to be Mayor of Medan or the Governor of North Sumatra has been intense enough. Ethnically, Mayor of Medan has been held by Mandailing/Sipirok, Javanese, Simalungun, Nias, Minangkabau and Malay,<sup>10</sup> and the position of Governor of North Sumatra has been held by Karonese, Mandailing, Bataknese and Malay.<sup>11</sup> In 1993 ethnic tension occurred in North Sumatra when Major General Mudyono, a Javanese former Head of North Sumatra's House of Representatives and Major General Raja Inal Siregar, former Siliwangi Military Commander, competed for the governorship in 1993. Mudyono tried to manipulate the association for North Sumatra-born Javanese (*Putera Jawa Kelahiran Sumatra Utara*). Raja Inal Siregar was truly supported not only by his clan but also by other ethnic groups and in the end he won the election. So far, the governorship

of North Sumatra still has never been held by a civilian. It is perceived to belong to the military — a group that is selected and chosen by Jakarta, even though the process of selection of governor itself was done in the provincial House of Representatives.

Though struggle for resources has been relatively intense, those who lost in competition for strategic position never mobilized ethnic or religious sentiments against the winner. This was perhaps partly caused by the authoritarian nature of the New Order governance, but also because of the fact that a majority position would have required large ethnic coalitions.

## THE SARA REGIME OF UNBALANCED ETHNIC COMPETITION

Indonesia under Soeharto's New Order regime had an authoritarian strategy on veiling ethnic competition. The centrally dominated setting of the Javanese prevailed, but any explicit ethnic competition was suppressed by strictly controlling popular mobilization. In the official rhetoric concepts "modernity", "stability" and "development" played important roles in strengthening the ethnic balance of privileges. Ethnic competition was curtailed by referring to the need of stability, which was the precondition for development, which again was to lead Indonesia into modernity. This

<sup>10</sup>Since 1945-2001 there were 16 mayors with different ethnics. Seen from ethnic composition during 56 years with different persons: Mandailing seven times, Simalungun three times, Javanese once, Minangkabau once, Nias once and Malay three times including incumbent Mayor of Medan, Abdillah, elected in 1999-2004. Adopted from Usman Pelly, *Ibid.*, 132.

<sup>11</sup>Since 1965-2001 there were five governors of Sumatra with different ethnics. Their composition: Ulung Sitepu a Karonese once, Mandailing four times (Marah Halim Harahap two periods or ten years and Raja Inal Siregar two periods, Bataknese once, Malay (incumbent Governor of North Sumatra, Rizal Nurdin is a Malay), elected in 1998-2003.



Indonesian interpretation of the modernization paradigm has been thus, combined the interests of the power elite, the privileged ethnic group and the capitalists. At the same time, within the administration the doctrine the Indonesian modernization paradigm safeguarded the centrality of the military.<sup>12</sup> It became the guarantor of order and stability and the guardian of the political, economic and ethnic elite of Soeharto's New Order. The early stage of New Order formative years development was also supported by many secular intellectuals<sup>13</sup>, but until the end of Soeharto's power its intellectual support base had erode. Diversity was neglected but uniformity was strengthened. Social and cultural—including ethnic differences—were flattened out.

In North Sumatra, the relationship between stability and development became all but peaceful. When development required lands for industrial purposes the government took them by force. If the peasants were given any compensations, they were at least very minimal (Untoro Chariadi & Masruchah 1995: 86). If they refused to give up their land for development

purposes government backed up by military often threatened and terrorized the peasants to take the lands. Those who were trying to defend their lands were accused of being communist and hostile to national development objectives (interview material). Land ownership and economic rights were mixed with ethnic and regional tensions. Development was a national effort, which often favored the role and rights of Jakarta and Java, while the sacrifices involved in the national development in North Sumatra were imposed on people of North Sumatra.

Also in the field of political power the relationship between the region and the center also tilted to the advantage of the center. For the North Sumatran victims of development there had been no place to express their grievances. Political parties were not able to protect the people because the government tightly controlled them. During the New Order there were three political parties, PPP (United Development Party), Golkar, and PDI (Indonesian Democratic Party). The government selected all the party leaders from Jakarta down to regency level. If the one nominated by his party's members regarded disloyal by the government, he was not approved to lead the party (Ward 1973: 67-82). Critical party leaders or those who have masses at grass root level had never been allowed to become party leader. In addition, due the to New

<sup>12</sup>The Indonesian practice of modernization exemplifies the model of bureaucratic authorization by Guillermo O'Donnel (1978).

<sup>13</sup>For the role of secular intellectuals in early of formation of New Order, see Liddle (1973).



Order's strict control over the people it banned party activities in the North Sumatran village level. Since New Order applied its floating mass policy, Sumatran people kept away from political activities.

Formally, parties could not reach the North Sumatran villages but still, in reality, Golkar, as a ruler's party could freely expand its influence into the heart of the villages through village bureaucracy.<sup>14</sup> At the national level the chairman of Golkar was a cabinet minister and at North Sumatran provincial and regency levels its chairmen always occupied high-ranking offices in bureaucracy. Governors and regents were its Advisory Boards. By utilizing the chain of bureaucracy it was able to dominate all sectors of life.

Another structure that emphasized the power of Javanese, Golkar and the center was the militarization of the society (Reeve 1990: 151-176). As an organization the military was naturally a centralist one. The relationship between the party, the government and the president was institutionalized in a way, which did not allow any major changes. At the same time, pursuit of power of the military, the pres-

ident and the party all at the same time played in hands of Jakarta and against North Sumatra and other provinces.

Cultural relations also tended to serve the political and economic hegemony of Jakarta and the Javanese over other groups in North Sumatra. An important tool in the avoidance of criticism of regional, cultural, and ethnic disparities, a discursive strategy was designed. This strategy once again utilized security imperatives as a smoke screen. Decree No. 25 1979, which outlined the code of conduct in inter-religious/ethnic/regional issues, was implemented with the result that all ethnic/religious/cultural/regional comparisons were banned for security reasons. In essence the Decree No. 25 of 1979 made it impossible to verify or falsify claims of ethnic dominance, because, for the sake of ethnic harmony, any statistics and filing of people in ethnic categories was disallowed and any discussion of rights of ethnic groups banned as ethnic agitation.<sup>15</sup> The policy to outlaw open concentration on group rights was popularly known as SARA code (*Suku, agama, ras, antar-golongan*/ethnic, religious, racial, and political issues). For many, SARA was the mask for

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<sup>14</sup>This was because Golkar was not a party but an interest group of the bureaucracy. However, as an interest group it was the only one who could participate in political elections.

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<sup>15</sup>For the impact of Decree No. 5/1979 on Village government see, R. Yando Zakaria (2000). For the impact of economy and political aspects of state hegemony in rural Java see, Duto Sosialismanto (2001).

the New Order's elite to uniform and manipulate ethnic and cultural diversity.

In North Sumatra, as well as in some other parts of Indonesia, the legacy of the SARA norms of ethnic relations has had a distinctive effect on the later developments. As a normative code, with a hidden agenda of serving the elite, the center, the Javanese and the capitalist, in the context of free expression of thoughts SARA has been largely discredited and abandoned. Any norms that would regulate interaction between ethnic groups would now be suspected to be the hidden agenda of supporting one of the ethnic groups and thus it has been very difficult in North Sumatra to find any norms to replace the corrupt SARA norms. As a result, inter-ethnic relations have entered an age of relative anarchy, with all groups primarily interested in themselves only. In many places in Indonesia it has led to some kind of non-violent and sometimes also violent "ethnic cleansing".

Administrative units are planned in a way, which allows the clear dominance of one ethnic/religious group only; or, sometimes, there are areas that are cleansed by using threats and violence in order to deter other groups from staying in the area. This development runs the danger of politics becoming more strongly structured by ethnic boundaries, which again

could harm the development of democracy and stability of Indonesia. If parties are but ethnic interest groups, elections will be reduced to ethnic censuses.<sup>16</sup> This could block the channels of non-violent protest and disable the political work to address popular grievances.

### DECENTRALIZATION: NEW VIOLENT OPPORTUNITIES AND MOTIVATIONS, DECREASING GRIEVANCES

In 1999 the successor of Soeharto, President Habibie, introduced regional autonomy. This measure, if genuinely implemented, will empower regions and lessen centralized powers as practiced over regions by the New Order for three decades. Unfortunately, the issues on regional autonomy are still limited in technical affairs, such as replacing of government officials from one department to another or fusing civil servants from one department into another.<sup>17</sup> Bureaucratic behavior from provincial down to sub-district levels still resembles that of New Order bureaucracy. In the field of ethnic relations decentralization has invigorated the discourse of "native son" (*putera daerah*), which tends

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<sup>16</sup>This expression (racial census) is from I. William Zartman (1995).

<sup>17</sup>Interview by Budi Agustono with the provincial legislators Hadibroto (pseudonym) and Lukman Zain Koto (pseudonym), on 14 May 2001.



to be exposed to ethnic manipulation.<sup>18</sup> In the regencies where certain local ethnic group is in majority, people generally refuse granting strategic positions to migrants.

It seems clear that discrimination against non-local ethnic communities in the division of political and administrative authority is a reaction against the past tendency to use administrative centralism as a tool of discrimination by Jakarta and the Javanese against the local communities. The case of Simalungun regency is one example. During the new order the native Simalungun Batakese never held directorships in a state owned plantation (PTPN IV) and after the implementation of the decentralization initiative they demanded that positions by launching rallies to the headquarter of PTPN IV in *Bah Jambi* area.

Regional autonomy is like two-edged sword. On the one hand, it brings hope for democratization; on the other one, it can solidify ethnic loyalties and accelerate horizontal conflicts. More specifically from the conflict point of view, it reduces some of the grievances that might motivate conflict, while offering opportunities for violent ethnic mobilization. However, even regarding the conflict mot-

ivations, sudden changes in the setting of political economy always produce winners and losers, of which the later group often ends up wanting to chance the course of reform processes by force. This can be clearly seen in the case of Mandailing Natal (Madina) regency, for instance, where during the New Order, national and local elite enjoyed economic and political benefits from the government facilities. They obtained business contracts and monopolized business activities because of their relation to the power holders (bureaucrats). Their various businesses expanded from Medan down to the sub-district level all over the regencies in North Sumatra. After the issuing of the decree on regional autonomy big capitalists were no longer free to run their monopolistic business practices in the regencies without being approved by regents.

In Madina, the setting was stereotype, involving the winner of decentralization, the Regent Amrun Daulay (with his new powers) and the loser, old business crony, Anief (with his lost monopoly positions). Anief had monopolized the swallow nests business in the area since 1990s before Soeharto stepped down. In line with the implementation of regional autonomy the regent tried to take over the business of swallow nests owned by Anief in order to increase the regional income of Madina regency. Anief naturally refused to give up his swallow nests monopoly.

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<sup>18</sup>Interview by Budi Agustono with provincial legislators Zainuddin (pseudonym), on 18 May 2001 and Setiana Bangun (pseudonym), on 15 May 2001.



Anief was supported by youth organization, Pemuda Pancasila and local residents who gained economic benefit from the swallow nest business, whereas Amrun Daulay got support from bureaucracy, religious leaders and other local residents. Their supporters belong to the same ethnic community, Mandailing. Both practiced mass mobilization in order to support their interests. In consequence open clash between their followers was unavoidable. Interestingly, in that case some of the provincial and Madina's legislators were involved. It was rumored that United Development Party (PPP) and several of House Representatives sided with Anief,<sup>19</sup> because of close personal relationship between PPP functionaries and Anief. On the other side, the Speaker of Madina's House of Representatives who belonged to National Mandate Party (PAN) supported Amrun Daulay, the regent of Madina regency, again for personal reasons. Still now, Madina society has split into two parties between followers of Anief and followers of Amrun Daulay. Like in many of the disputes similar to this in North Sumatra, these ethnic and religious affiliations were also used in the mobilization of the defense of selfish economic interests.<sup>20</sup>

<sup>19</sup>Interview by Budi Agustono with the provincial legislator Hadibroto (pseudonym), on 14 May 2001.

<sup>20</sup>For this and other economic conflicts between capitalists and the bureaucracy see,

Decentralization as a drastic reform process has also caused discrepancy between anticipated and experienced benefits. The implementation of regional autonomy is very dependent on the role of local legislators in regencies level and if the level of regional politicians and administration is not high enough. This becomes a source of disappointment. The expectations of the people can be illustrated by the concept very much used in North Sumatran political rhetoric of regional legislators as people's fighters (*pejuang rakyat*). However, due to the logic of drastic transitions, both voters and politicians were inexperienced to perform their democratic functions. Very often public offices and mandates as legislators were seen as platforms for personal enrichment. Several indications show that their positions as *people's representatives* were used as an instrument of bargaining with local bureaucrats for seeking economic benefits.

According to a newspaper report the regent of Asahan regency distributed former plantation land near by the bus terminal of Kisaran to local legislators and his cronies. Each got 20130 square meters, which was worth Rp 35.000.000 (US\$3500).<sup>21</sup> Reports

*Sinar Indonesia Baru*, 2 April 2001. *Sinar Indonesia Baru*, 23 April 2001, *Sinar Indonesia Baru*, 25 April 2001 and *Waspada*, 21-22 March, 21 May 2001.

<sup>21</sup>*Radar Medan*, 19-20 January 2001. Whether this or other reports of corruption were



also claim that in Asahan the legislative responsibilities in regional budgeting have been used in a corrupt manner.<sup>22</sup> In Tapanuli Utara regency, four local legislators were found drunken in their office<sup>23</sup> and in the city of Medan, a member of legislator was found gambling. The election of the mayor of Medan was widely rumored to have involved money politics. Furthermore, press reports claimed that before the same mayor presented his accountability report to the House of Representatives, the House members got new cars.<sup>24</sup> The case of money politics, which involved Medan legislators, has been brought to the Office of the High Council for the Prosecution in North Sumatra (*Kejaksaan Tinggi Sumatera Utara* (*Kejatisu*)).<sup>25</sup>

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true or false is not important: the fact that politicians were *suspected* of corruption gave a reason for people to be disappointed to them.

<sup>22</sup>*Radar Medan*, 10 January 2001.

<sup>23</sup>*Sinar Indonesia Baru*, 13 March 2001. Local people regretted and criticized drunken legislators and asked them to learn moral values in order to be respected by the people. See, *Sinar Indonesia Baru*, 16 March 2001.

<sup>24</sup>Many people protested to Medan's House of Representatives office regarding, *pesta mobil baru* (celebrating the new car) and they also asked about legislator's morality. See *Radar Medan*, 1 January 2001 and *Radar Medan*, 25 January 2001.

<sup>25</sup>*Waspada*, 31 July 2001. For other bad stories of Medan legislator regarding extortion and collusion, see, *Radar Medan*, 10 Januari 2001 and *Radar Medan*, 17 January 2001. Whether or not any of these rumors were true is not relevant. The exist-

## NORTH SUMATRA - WHAT LIES AHEAD?

Ethnic competition has for more than a century been partly based on objective interests of groups that have their differentiated role in the political economy of North Sumatra. Ethnic divisions have always been somehow relevant in the social life of the province. Mostly, however, the relevance of ethnicity in politics and in conflicts in North Sumatra is based on skillful manipulation of sentiments by the elites. The main aim of this manipulation has been the veiling of egoistic interests into socially acceptable collective programs of ethnic communities. The starting point of ethnic politics in North Sumatra seems to be an objective structure of local political economy and the continuing struggle for power and wealth within the structural framework (which naturally is then also affected by the struggle for power and wealth). Ethnicity comes into the picture as egoistic, unjustifiable interests are veiled with non-egoistic rhetoric for the purposes of legitimacy and mobilization: elites want wealth and mobilize religious and ethnic groups behind their pursuit of wealth and power. The reality of ethnic relations is created in this process. While the mobilization of various groups is clearly very intentional,

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ence of a rumor is what contributes to social unrest, not whether or not the rumor is true.



it seems that some of the structural consequences of this mobilization are not: In many cases rhetorical strategies require credibility, which is then achieved by acting upon them. Very often this action involves violent conflict behavior.

Competition for power and wealth continues whatever the setting of political economy is. In many analyses of the conflict potential in centralized and decentralized Indonesia one of the two settings is seen as competitive while the other is seen as harmonious. This has, on the one hand, led into an analysis that see Soeharto's order as peaceful and decentralized order with greater freedom and mobilization opportunities as invested with religious and ethnic tension. On the other hand, an asymmetrical expectation regarding to ethnic competition has also led to the study of suppressive violence against ethnic groups in the Soeharto era, and predictions of disappearance of grievances and competition during the time of regional popular empowerment. The central argument of this article is that both of these assumptions are incorrect, competition continues and that in certain respects the centralized order was better able to contain violence while in some other respects, the new decentralized order holds a greater potential of reducing the motivations for violence. In addition to looking into these two settings this study re-

veals some motivations which as specific to the process of transformation. Some of the conflict motivations are related to the relative deprivation caused by the change. These motivations can be expected, eventually, to disappear when/if North Sumatra gets over the transition phase.

There is empirical evidence suggesting that ethnic heterogeneity-condition prevalent in North Sumatra — is associated with greater conflict potential (Rummel 1997). According to Rummel, the number of ethnic groups explains one fifth of the variation among all states in such intense violence as guerrilla and civil wars. This conclusion is, however based on conflict data from 1932-1982, and more current data tends to suggest some qualifications to this conclusion. According to Collier (2000; 2001), the most conflict prone setup takes place when there only are two main ethnic groups competing for power. Societies with many, equally powerful ethnic groups are no more war prone than homogeneous societies. Collier explains this by referring to the rationality of conflict agents: it is rational for an ethnic group to resort to violence, only if it can achieve something by using force. In a setup where there are only two dominant ethnic groups, harming the other would, indeed, sometimes result in desired power political changes, and the domination of the violent group.



The use of large-scale violence for political purposes in North Sumatra would not produce a desired outcome simply because none of the ethnic groups would be strong enough to launch a successful attack against all the other ethnic groups. To interpret this in a less rationalist and more realist complex conflict context, one could utilize the careful analysis of the ethnic riot process by Donald Horowitz (2001). According to Horowitz, aggression is often caused by fear, and thus its target is usually a strong group. Fear, however, is also the main inhibitor of conflict: if a group is challenged by a strong enemy and it cannot find a location or a timing which would enable it to get the upper hand from their enemy. A dominant ethnic group who loses its power in elections, or whose charismatic leader dies, or who can otherwise be outmaneuvered by surprise or by a secret plot, is always a group at risk of becoming target of violence, if there is a depressed ethnic group almost as powerful as itself. A rough balance of power between two dominant groups, therefore, would easily create situations, where potentially aggressive ethnic group would, at the same time be generally feared but locally, in some circumstances there could be a challenger who would be able to go around its fear to challenge the dominant group.

When compared systematically, the current absence of large-scale viol-

ence in North Sumatra to episodes in North Sumatran history, where violence took place or with the conflict trouble spots elsewhere, this can be seen in the logic of Collier and Horowitz exemplified in Indonesia. Ethnic bipolarity without the mutually assured destruction of the international system has indeed been the most unfortunate structure of power constellations in Indonesia.

Considering the violence of the 1940s between Sumatrans and the Dutch, it is understandable that the strong structures of Dutch governance that had terrorized Indonesia for three centuries, had been more than enough to create the aggressive motivation for Sumatrans to resist colonialism. Large-scale (two-sided) conflict, however, had to wait until the time when the war and the increasing nationalistic spirit had weakened the Dutch. Due to the policies of divide and rule and the Dutch favoritism for the ethnic Malay, the conflict between Indonesia and the Dutch was also mixed with the originally land-related conflict between the weakening Malays on the one hand and the strengthening migrant communities and other non-Malay groups on the other. Thus we have a classical setting of bipolarity that offered both the motivational fear as well as the opportunities to go around it to mobilize resistance.

The violence related to the PRRI rebellion in North Sumatra in the mid-



1950s could also be seen in bilateral terms, even if the objective power constellation did not turn out to be in balance. The initial setting was the perceived dominance in national policies of the revolutionary elements insensitive to the more religious system of values in North Sumatra. On the one side was the strong machinery of the state, which created, if not fear, then at least the frustration, while on the other side was the strong local support to the alternative elements in the national politics (Vice President Hatta and the Masjumi and PSI parties, which were more development oriented and less revolutionary, Feith 1967). While it was clear that the bilateral structure of agency also facilitated this conflict, the sides here were not objectively based on ethnicity or race as was the case in many other conflicts presented in this article. This fact poses a challenge to the theory of bipolarity in conflicts: if the agency is socially constructed, how can the bipolar setting be avoided.

Also the local conflicts like the ones related to land ownership in Kisaran & Asaran during the Soeharto period (see for example Shiraishi 1999) and after (see note 21 in this article), could be describes as bipolar. Here the basic setting was a conflict about locally privately owned lands which the military representatives of the state (during Soeharto) and political representatives of regional power (after Soeharto) could grab for themselves by

using the "powers of Jakarta/Medan" as their tools. The power of the central and regional governments was certainly strong enough to create the relative deprivation and the motivation for local resentment and revolt. At the same time, the local power balance and the local strength were enough to facilitate occasional counteractions against the officials.

Immediately after the fall of Soeharto the political life all over Indonesia was temporarily bipolarized by the competition between reformist forces and Soeharto-loyalists. As in many places this setting also caused pressures to the stability of North Sumatra.

Also the small-scale violence between the regent of Madina, Amrun Daulay and the leading business crony of the region, Anief, was bilateral, despite the fact that both competitors and their followers tended to belong to the same ethnic group. However, clearly Anief represented the old regime, whose use of corrupt economic power had frustrated regional aspirations. At the same time, the fearlessness of the regent in the opposition was naturally made possible by the changes in the national leadership as well as in the new balance of power between the region and the center. Perhaps the fact that there were not just two competing forces in the region explains why this incident was limited and isolated to Madina. Had



there been a regional bipolarity and a division that the rivals could have mobilized in their competition, there could have been more serious consequences for this and many other isolated incidents of violence in North Sumatra.

## CONCLUSION

Democratic decentralization in Indonesia offers opportunities for addressing the potential of conflict in North Sumatra. Empowerment of North Sumatran people creates non-violent channels of protest, which has been associated in general with falling conflict potential. At the same time eventually one would expect more efficient local popular empowerment gradually to address popular grievances of the province.

At the same time the process of democratization and decentralization has changed the relative status positions between groups and created new relative deprived groups. Simultaneously, the radical process of change has made it difficult for the public sector to contain opportunistic violence. The future of stability in North Sumatra will largely depend on the capabilities of the new regional and central bureaucracies to block violent opportunities (from people as well as from the civilian and military officials), address grievances and relative deprivation as well as actively facilitate

the creation of non-violent channels of protest.

Nonetheless, one crucial factor in the reformation of the administrative units in North Sumatra and elsewhere in Indonesia is whether the process manages to create structures of bipolarity. If the real power rests in units of governance which are either completely homogeneous or clearly heterogeneous, frustration in North Sumatra can be occasionally be reflected in local and temporary incidents of violence. However, in this scenario North Sumatra is likely to avoid large-scale violence. Taken that the structures of agency in North Sumatra are socially constructed and thus subject to constant fluctuation, avoiding bilateral structures is difficult in Indonesia. However, ethnicity and religion are constructions which have had political relevance for a long time and some of this relevance has been sediment in the economic structures. Thus, the experiences of North Sumatra would seem to lend support to an advice to avoid religious and ethnic bipolarization in Indonesia's new reform process.

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## INDONESIA: A BLUEPRINT FOR STRATEGIC SURVIVAL

Written by Nirwan Idrus



Published by: Centre for Strategic and International Studies (CSIS), Jakarta

This book presents the author's assessment of Indonesia and its potential for survival in the new millennium. Much of the assessment is based on his observation, as a layman, of the happenings in the country. As the author claims, this is not meant to be a scientific discourse, but an applied analysis of political, economic, social and strategic governance.

In this book, Idrus explores the causes why Indonesia becomes lawless and increasingly deteriorating. For Indonesia to survive, it needs to change and transform itself. But obstacles to rapid changes are too enormous and deeply petrified. Therefore, he proposes a very long-term planning, envisioning Indonesians of the 21st century to be knowledge-based, technology-literate, law-literate, community- and society-responsible,

and most importantly recognized by other peoples as having those qualities. A framework of what needs to be done in the proposed long-term planning is discussed in it.

This book is mainly useful for those who work for learning institutions, political parties; and government planning agencies. It is hoped that having gone through this book, they will seriously consider the long-term planning as recommended by the author.

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# The East Asian Monetary Cooperation: A Survey of Recent Progresses\*

*Agus Eko Nugroho*

## INTRODUCTION

**I**N the wake of the Asian crisis in 1997/98, there has been a strong demand among East Asian countries to strengthen further the international monetary cooperation in the region. This is particularly motivated by a fact that the outstanding efforts, such as the Executive Meeting of East Asia and Pacific Central Bank (EMEAP), APEC Financial Meeting (FMM), and Pacific Economic Cooperation Council (PECC) and Financial Market Development (FMD) Taskforce, have failed to overcome the crisis of 1997 (Yamazawa, 1998). Naya (2001) points out that the incapability of such efforts to

deal with the crisis is not surprising under the nature of non-preferential-based cooperation. This motivation is then reinforced by a number of disagreements that emerged in response to the IMF's role in handling the Asian crisis, particularly the ineffectiveness of the 'one-size-fit-all' policy prescriptions of the IMF (Radelet and Sachs 1998; Hutson and Kearny 1999; Ichimura 2001; Naya 2001). For instance, the IMF stabilization program that forced the Asian crisis countries to adopt tight fiscal and monetary policies, with high interest rates, was inappropriate policy because it in turn raised the collapse of banking system as well as corporate sector. The IMF rescue package in August 1997 with the conditionally requirement of freezing a number of financial companies (Thailand) and domestic banks (Indonesia) without adequate preparation resulted in panic among uninsured deposit holders amplifying the crisis into even worse (Hutson and Kearney 1999).

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To strengthen the East Asian monetary cooperation had been introduced originally by Japan through the proposed development of Asian Monetary Fund (AMF) in response to the crisis of 1997/98. The idea for the Fund came out when Japan with several ASEAN member countries proposed financial supports for Thailand at the early stage of the crisis in August 1997. However, at its premature stage, the proposal faced a strong opposition from the United States (the US) and the IMF. Only about four months since the idea of the AMF emerged in August, Japan ended up on the proposal in November 1997. Obviously the continuous efforts to develop further financial cooperation among countries in the region reflected a feeling of togetherness among diverse countries in East Asia to have new approaches and mechanisms to protect themselves against the more volatility of the world financial market today and to ensure a more stable economic development of the region. Interventions from outside the region such as the IMF program in dealing with the crisis may not fully reflect the best interests of the crisis-affected countries. For this reason, in 2000 the development of ASEAN+3 (PRC, Japan and South Korea) resulted in the Chiang Mai Initiative to form a regional financial facility in cases for recurrent crises in the future.

## **BROADENING FROM SOUTH-EAST TO EAST ASIAN COUNTRIES**

Since the 1990s there have been increasing challenges on the economic cooperation of ASEAN regionalism since the substantial change in political and economic structure within as well as surrounding the region has taken place. The economic achievements among ASEAN members and the transformation of some member countries to become the investing and financial centres give rise to the competition among the countries, leading to the fragility of the financial markets in the region. The rapid growing economy and the openness policy of PRC and its inclusion in the World Trade Organization (WTO) increase further the competition between countries not only within ASEAN but also in the East Asia region, particularly in international trade as well as in attracting foreign investment. Following the Asian crisis of 1997, the increasing political tensions in the Southeast Asian region had put challenges on steeping up the outgoing cooperation among ASEAN countries.

Compared to the cooperation in the area of trade and industry, financial cooperation in ASEAN has not developed progressively. The currency Swap Arrangement of ASEAN established in Kuala Lumpur on August



1977 was probably the major effort for financial cooperation in ASEAN. However, since its establishment, such cooperation had little progress due to the limited amount fund available. For instance, as the establishment of the swap arrangement among the five earlier member countries (ASEAN-5) with contribution of US\$20 million for each countries, the total amount available was just about US\$100 million and the swap facility was up to US\$40 million. Although, in 1978 the total financial resources had doubled to US\$200 million as each country member agreed to increase its contribution of US\$40 million, raising the swap facility of US\$80 million, no country member had demand to use the facility (Shirai 2002; Shimizu 2002).

One may agree that the need for regional solution of the Asian crisis does not emerge merely as a response to the occurrence of the East Asian crisis in 1997. In the early 1990s policy makers of the region sought to reduce the dependency over the West (particularly the US) through the idea of forming the East Asian Economic Caucus (EAEC) proposed by the Former Prime Minister Mahathir Mohamad of Malaysia. The EAEC failed and again, in response to the crisis, the Japanese government proposed the Asian Monetary Fund (AMF) at the early stage of the crisis. Although the proposal was enthusiastically well responded by most East Asian coun-

tries, it could not be materialized in the face of strong opposition from the US and the IMF. However, the death of the AMF did not reduce the demand for strengthening the East Asian monetary cooperation. Along with the increasing criticisms toward the IMF stabilization program on the crisis affected countries, there has been various papers on rationalizing the need to develop the regional financial arrangement in East Asia (Bergsten 1998; Rajan 2000; Naya 2001; Ichimura 2001). As a result, in the May 2001 meeting held in Chiang Mai, in the sidelines of the ADB Annual Meeting, the ASEAN+3 (ASEAN-10 plus PRC, Japan and Korea) set up the Chiang Mai Initiative as an effort to strengthening further financial cooperation among East Asian countries.

## THE FAILURE OF ASIAN MONETARY FUND

Two months after the wake of Thai baht crisis in July 1997 and as a response to a request by Thailand (Shirai 2001), Japan proposed a "Asian Monetary Fund" (AMF) which was originally intended to make available a pool of funds to be quickly disbursed as a liquidity defence to emergency balance of payment problems for the Asian affected crisis (Rajan 2000). The proposal of establishing such Asian multilateral financial institution which was originally delivered at the G7-IMF meetings in Hong Kong during 20-25



September 1997 was enthusiastically welcome by most East Asian countries, notably exception was probably PRC. Funding mobilization capacity of the AMF was approximately about US\$ 100 billion in which Japanese Government would be the funding majority and the rest received pledges from Hong Kong, Singapore and Taiwan and other ASEAN countries (ADB 1999; Wade and Veneroso 1998).

The AMF proposal was originally promoted by the Finance Ministry of Japanese Government (MOF) starting in late August 1997. The origin of the AMF, however, can be traceable when the idea of the Asian Monetary Organization (AMO) was proposed by Japan in fall 1996 after the US and the IMF gave the funding support to Mexico crisis of 1995. The proposal was firstly formulated by the work of the Institute for Monetary Affairs (IMA) and Tokyo-Mitsubishi Bank which is closely link to the International Bureau of MOF. With the initial size of fund was envisioned about US\$20 billion, the IMA came up with the blue prints of the AMO and prepared to promote the idea to the May 1997 ADB meeting in Fukuoka as "Gyohten Initiative". However, the idea was abandoned provisionally because of unrelated events undermining Japan's position in Asia (Personal Interview cited in Lipsy 2003).

At least three factors were accounted for the extent to which Ja-

pan emerged rapidly the proposal of the AMF at the early stage of the East Asian crisis. The *first* was the reluctance of the US for giving the funding bailout to Thailand as cited in *Washington Post* on August 1997 that the "rescue loans are pledged to Thailand without the United States" (Blustein 1997). By contrast, Japanese Government played a major role in facilitating the support loans of the IMF rescue package to Thailand. In a rapidly speed, as official MOF pointed out, that during the organization of Thai bailout, a such "Asian Consensus" had emerged, demanding for a legitimated role of Japan as a regional leader in Asia. The *second* was the internal dynamic in the MOF by which Sakakibara was appointed to as the Vice Minister of International Affairs in July 1997, this then gave rise to the promotion of the AMF idea. The MOF begun to seriously work on the AMF following the IMF-to-Thailand bailout meeting held in Tokyo on August 1997 as Sakakibara stated that an "Asian sense of solidarity" which was spread through every part of the meeting became a key factor for the convincing argument to support the AMF proposal. The *third* was that the Thai-rescue package also came into view of the under-funding of the IMF in dealing with the Thai-bailout as well as in the other Asian crisis affected countries, particularly those of in Indonesia and South Korea (echoed later by Ichimura (2001) and Naya (2001).



Following the Thai meeting, the MOF came out with a more detailed AMF plan and started to promote it to other Asian countries in late August. In this plan, which valued about US\$ 100 billion, the AMF would be composed of ten members, including Japan, PRC, Australia, Hong Kong, Indonesia, Malaysia, Thailand, the Philippines, Singapore, and South Korea and it would be excluded the US as well as unnecessarily act in unison with the IMF (Nakai and Lipsy 2003). However, soon after the US considered the Japanese efforts in promoting the AMF, the US government decided to actively oppose the AMF proposal. According to Sakakibara cited in Lipsy (2003), the Deputy Treasury Secretary Larry Summers phoned him directly at his residence at midnight in response to the exclusion of the US and opposing to such an autonomous action over the IMF. However, Sakakibara argued that the US opposing the idea was because it believed that Japan had been trying to challenge to American hegemony in Asia through the AMF. Consequently, the proposition of the AMF by Asian countries, particularly ASEAN countries, Taiwan and South Korea begun to weaken as the US and the IMF expressed their oppositions and they indicated a willingness to expand the IMF quota for Asian countries in a promissory New Arrangement to Borrow (NAB). The support to the AMF weakened further as it was appeared that PRC disagreed upon the

AMF due to the successful lobby of the US to PRC by emphasizing that Japan had been trying to develop its hegemony in Asia. Consequently, without PRC support and in the face of the strong opposition from the US and the IMF, the AMF proposal never materialized.

The question to be raised is the extent to which Japanese Government was eager to support the institutional development of the AMF. *First*, the under-representative of Japanese and Asian interests in the IMF at official levels motivated them to establish a regional monetary institution that would be able to serve for the future crises of the Asian region. This means that the AMF can be seen as an effort to overcome the inability of Asian countries, particularly Japan to obtain preferred policy outcomes via the IMF (Sussangkarn 2002; Rajan 2000). Unsurprisingly, the reformation of the IMF quota in 1998 to better reflect the economic realities (IMF 1997) might be partly as a response to the emergence of the AMF. *Second*, as Lipsy (2003) points out that with providing rapid liquidity provision, it will benefit the Japanese creditors in the Asian crisis affected countries in a view that the liquidity support might be stabilizing economies and a possible quick economic recovery in the short run. This motivation is particularly based on the fact that Japanese creditors have a very close relation with



the crisis affected economies compared, for instance, to the US and the EU.<sup>1</sup> *Third*, as the recent financial crisis tended to possess a regional contagion in nature and with regard to the funding bailout package coming largely from the region itself.<sup>2</sup> Regarding the underfunding of the IMF, these then motivated Asian economies to form a strong regional monetary institution similar to that the US has provided the necessary economic and financial leadership in the Americas and the successful development of the monetary union in Europe.

Despite growing regional enthusiasm upon the AMF proposal, it was opposed by the IMF and the US for a number of arguments (Rana 2002) for some reasons. *First*, the regional approach on the future crisis would exacerbate the moral hazard problems.

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<sup>1</sup>In the case of Thailand, Japanese financial institutions have lent to the country about US\$30 billion compared to the US for just about US\$4 billion. Japanese firms have also been the largest foreign direct investor in Thailand and the surplus of Japan's international trade with Thailand, making Japan vulnerable to any economic downturns of Thailand (Lipsey 2003).

<sup>2</sup>For instance, most funding bailout for the Mexican crisis of 1994/1995 came from the US and in the case Asian crisis of 1997/98 was mostly bilateral aid, of which most was by regional economies in East Asia (e.g., the Thai bailout commitment, about one-third of US\$34 billion was bilateral in which all came from the regional economies. The similar fact applied to Indonesia and South Korea (Chang and Rajan 1999; Rajan 2000).

The basic idea was that a "soft conditionality" imposed by such regional institution would raise moral hazard problems, as investors tend to make riskier investments and the crisis affected countries would likely to undermine reforms of the weak banking and financial regulations. In other words, although the regional institution might provide a substantial liquidity support to the crisis countries, it would discourage the long term reform of their weak banking and financial institutions. *Second*, the development of the AMF would be likely to fail because there was still the lack of strong political will among the East Asian countries to form monetary and financial cooperation, certainly not as much as the Europe when it had started the exercises. As Lewis (1999) argues that if ASEAN remains far from a cohesive entity capable of responding the crisis, the international community would likely continue to be disbeliever of the AMF. *Third*, that the US was eager to oppose the AMF was possibly because it believed that such institution would likely be a challenge to Western hegemony in Asia as the AMF can possibly undermine the role of the IMF in Asia.

### The Chiang Mai Initiative

Undoubtedly, the AMF proposal politically turned down on the margin of the Fund-Bank Annual Meeting held in Hong Kong on September



and in order to enhance regional surveillance, the Manila Framework Group was created in Manila on November 1997 (Ito 2002). This Group would bring together deputies from the finance ministries and central bankers within and outside of Asian Pacific region and the purpose is basically to exchange information of regional surveillance. Furthermore, in a smaller coverage, the ASEAN Finance Ministers in October 1998 established the ASEAN-10 Surveillance Process (ASP). The purpose of the ASP is to exchange information concerning not only macroeconomic aggregate and exchange rate of the countries, but also provisions for capacity building, institutional development. Under the ASP the ASEAN Ministers will meet two times a year for informational exchange and policy coordination in response to events that may give negative impacts on the economies of the region. Furthermore, one year following the establishment of the ASP, the ASEAN+3 group came up formally in November 1999 and the ASEAN+3 (ASEAN-10 plus Japan, South Korea and PRC) Surveillance Process was set up in the sidelines of the ADB annual meeting in May 2000. Similar to the ASP, the Surveillance Process of ASEAN+3 will coordinate the Finance Ministers of the 13 countries to meet twice a year for policy coordination. The initial development proceeded as monitoring data on short-term capital flows to region was introduced in the joint

ADB-ASEAN Secretariat workshop held in April 2000.

Along with an increasing number of criticisms upon the failure of the IMF in dealing with the East Asian crisis (Sachs 1997; Ichimura 2001; Naya 2001), the idea of developing such an Asian regional fund continues to feature prominently in regional consultative meetings as well as in academic papers and articles. Shinohara (1999) suggests the development of a Regional Stability Forum in order to promote regional policy dialogues among Asian countries and to establish a mechanism for emergency financial support for recurrences of crises in Asia. Similarly, the ADB institute and the Asia Policy Forum suggest the establishment of an Asian financial arrangement that may act as a regional lender of the last resort for future crises and provide regional surveillance and cooperation for financial and corporate restructuring (Yoshitomi and Shirai 2000). As cited earlier, concerning regional contagious effect of the Asian crisis, Rose (1999) supports the development of regional fund as a complementary institution to the IMF (similar argument can be referred to Ichimura, 2001 and Naya, 2001). These probably have paved a way for strengthening further the monetary coordination among East Asian countries.

Once again in the sidelines of the ADB Annual Meeting, the ASEAN+3



Finance Minister Meeting on May 2000 held in Chiang Mai, Thailand, established Chiang Mai Initiative (CMI). The CMI is basically to intensify policy dialogues and regional cooperative activity by which it proposes: (1) the extension of ASEAN Swap Arrangement that includes all ASEAN country members (ASEAN-10), the development of bilateral swap and repurchasing of agreement facilities among ASEAN-10 plus Japan, South Korea and PRC; (2) The ASEAN+3 framework will be used as to promote the exchange accurate information and consistent data on capital flows in the region; (3) The regional financing arrangement among ASEAN+3 shall be established as supplementary financing of existing international facilities (e.g. IMF); and, (4) The establishment of an appropriate early warning system which could increase the ability of ASEAN+3 to provide strong financial stability in the region (Rana 2002).

### **An Expansion of ASEAN Swap and Repurchase Arrangement**

As it was stated earlier, the ASEAN swap arrangement (ASA) was originally established in 1977 when the central banks of ASEAN-5 (Malaysia, Indonesia, Thailand, Singapore, and the Philippines) came up with an agreement to provide immediate short-term swap facilities for US dollars against the domestic currency of ASEAN member countries facing temporary external

liquidity problems. The other regional financing facilities include the ASEAN Arrangement to Borrow (AAB) and the ASEAN Bilateral Repurchase Agreement (REPO). Although, these arrangements have been rarely used because of limited amount of the US dollars available, it is however very important to pave a way for policy makers of East Asian countries to give strong support for further development of financial facility in the region, such the CMI. According to Shirai (2001), the swap arrangement and repurchase (REPO) agreement facilities under the CMI has been favorable to international community including the IMF for at least three reasons. *First*, since the CMI swap and repurchase arrangement is set to be a supplementary financing of the IMF facilities, it will not likely deteriorate the IMF role in Asia. This is basically an effort to guarantee that most funding facilities in the swap arrangement are not independent to the IMF assistance and to lessen fears of those who are concerned with potential conflicts with the IMF conditionality and moral hazard problems. *Second*, the swap arrangement under the CMI will not be institutionalized (such as the AMF) since it is based on bilateral rather than multilateral basis. *Third*, there has been awareness among international financial institutions on an important role of additional financing support for the East Asian region.

Table 1

## PROGRESS OF SWAP ARRANGEMENT OF ASEAN+3 (BILL. USD)

Borrowers		Lenders			Sub- Total	Intra- ASEAN	Total
		Japan	PRC	S. Korea			
Thailand	Amount	3.0	2.0	1.0	6.0	1.0	7.0
	Currency	baht-USD	baht-USD	USD-baht or USD-won			
	Nature	One-way	One-way	Two-way			
	Status	30/7/01	6/12/01	26/6/02			
Malaysia	Amount	3.5	2.0	1.0	6.5	1.0	7.5
	Currency	ringgit-USD	ringgit-USD	USD-ringgit or USD-won			
	Nature	One-way	One-way	Two-way			
	Status	5/10/01	9/10/02	26/7/02			
Philippines	Amount	3.0	2.0	1.0	6.0	1.0	7.0
	Currency	USD-peso	USD-peso	USD-peso or USD-won			
	Nature	One-way	One-way	Two-way			
	Status	27/8/01	Negotiation completed	9/8/02			
Indonesia	Amount	3.0	2.0	1.0	6.0	1.0	7.0
	Currency	USD-rupiah	?	?			
	Nature	One-way	One-way	Two-way			
	Status	17/2/03	?	?			
Vietnam	Amount	0.0	0.0	0.0	0.0	1.0	1.0
Laos	Amount	0.0	0.0	0.0	0.0	1.0	1.0
Cambodia	Amount	0.0	0.0	0.0	0.0	1.0	1.0
Singapore	Amount	0.0	0.0	0.0	0.0	1.0	1.0
Brunei	Amount	0.0	0.0	0.0	0.0	1.0	1.0
Myanmar	Amount	0.0	0.0	0.0	0.0	1.0	1.0
Japan	Amount		3.0	3.0	6.0	0.0	6.0
	Currency		yen-yuan	Yen-won			
	Nature		Two-way	Two-way			
	Status		28/3/02	?			
PRC	Amount	3.0		2.0	5.0	0.0	5.0
	Currency	yen-yuan		won-yen-USD			
	Nature	Two-way		Two-way			
	Status	28/3/02		24/6/02			
S. Korea	Amount	7.0	2.0		9.0	0.0	9.0
	Currency	won-USD	won-yen- USD				
	Nature	One-way	Two-way				
	Status	4/7/01	24/6/02				
Total		22.5	13.0	9.0	41.5	10.0	54.5

Source: Chaipravat, 2002 and Park, 2003.



At the 7th meeting of ASEAN Central Bank Governors in August 2000, the expansion of the membership of the ASEAN swap arrangement had been made to include the remaining ASEAN-5 and the other members (Brunei, Myanmar, Laos, Vietnam, and Cambodia) as well as the enlargement of swap arrangement facility. In November 2000, the ASEAN-10 established a new ASEAN swap arrangement which would increase the total financing support from the US\$200 million that was established in 1997 to US\$1 billion. The ASEAN member country facing temporary international liquidity problems is able to borrow in foreign currencies, such as USD, yen and euro against its local currency. This new swap arrangement would be effective operationally by the middle of 2001. A number of proposals have been introduced in dealing with the ASEAN swap and repurchase arrangements. For instance, in the case of the ASEAN repurchase agreement, the Central Bank of Indonesia (Bank Indonesia) proposed that the REPO shall include a transaction of the US Treasury bills or notes with the maturity of not more than five years and should be immediately followed by a simultaneous agreement to repurchase the same securities at a later date. This repurchase agreement should be the amount of up to US\$1 billion and the maturity is not more than a month. Furthermore, Japanese Bond (yen bond) has also been proposed to be an eli-

gible asset for the transaction of the ASEAN swap and REPO agreements and the maximum amount of borrowing for each country member would be up to US\$2 billion (Chaipravat and Supapol 2000).

As swap and repurchase agreements under the CMI allows each country member to enter into a bilateral agreement to one another at mutual discretions of the agreement, a number of bilateral agreements have been carried out successfully. Japan has agreed to give Thailand a one-way bilateral swap arrangement of US\$3 billion against its local currency; similarly to Malaysia, the Philippines, South Korea for a maximum amount of US\$3.5 billion, US\$3.0 billion, and US\$7.0 billion, respectively. Japan and PRC have reached a two-way bilateral swap agreement of US\$3.0 billion. PRC also agrees to give Thailand, Malaysia and the Philippines a one-way bilateral swap arrangement each of which has a maximum amount of US\$2.0 billion. A number of swap agreements have also been under negotiation processes and it is expected to be concluded in a not distant time (Table 1).

Compared to the massive amount of funding bailouts for the East Asian crisis of Indonesia, Thailand and South Korea in 1997, the amount of funds to be made available under the Chiang Mai Initiative (CMI) is still relatively small (Shimizu 2002; Sussangkarn 2002; Park 2003). In the case of Thailand,



Bank of Thailand had run out almost all of the country's foreign reserves to defend its currency value against the foreign exchange speculators in the early stage of the 1997-baht crisis. According to Susangkarn (2002), the gross official reserves of Thailand stood at about US\$32.4 billion then run down massively to just about US\$3.0 billion to fight against the rapid depreciation of Thai baht against the USD. Shortly, given the current size of the amounts available under the CMI swap and REPO, these amounts are clearly far below financial bail-outs needed to the case of Thai baht crisis in 1997. Blanchard (2002) argues that in short-run, the meaningful prospects are still ambiguous, particularly as there is still a lack of political and economic pressures among leaderships of the countries to generate stronger political will that is important for developing deeper economic cooperation in the region (see also Park 2003). A number of political elites in the East Asian countries also seem to be in opposition to strengthening the regional economic cooperation due to a possible deterioration in their political power (e.g., PRC and Malaysia). Second, following the Asian crisis of 1997, deeper domestic socio-political conflicts in some countries (Indonesia and the Philippines) will continue to destabilizing political economy of the countries which can slow down the speed of their economic recovery from the crisis. Regardless of possible con-

tagious effects of such political conflicts to the neighboring countries, at least, time consuming and unsolved solutions of the problems will tend to impede their contribution for the multilateral economic cooperation in the region.

Given the limited amount of funding facilities under the CMI to prevent and manage the future crisis in the East Asian region (Park 2003; Shimizu 2002; Susangkarn 2002), the fruitful benefit of the CMI for the region is basically a significant political step toward a deeper and greater financial cooperation in the region. The East Asian elites appear to have learned that multilateral cooperation and the seriousness of the countries' political will would have been crucial in dealing with more fragile global financial markets in the future (Bergsten 2000; Shimizu 2002; Blanchard 2002; Sussangkarn 2002). Second, along this line, the ASEAN+3 monetary cooperation would have a significant influence of the increasing demand on the new form of international financial architecture as ASEAN, Japan or PRC itself has not been influential enough to make much difference to any reform that may be adopted by the key players in the global financial institutions. The binding form of such ASEAN+3 cooperation that accounted to about 45% of the world foreign reserves and combining with their current account surplus of over



US\$200 billion in 2000 shall give them much benefits as one of key players in shaping the global financial system (Sussangkarn 2002; Shirai 2002). Third, it will be responded optimistically by economic stakeholders in the region (e.g., investors, currency traders, lenders etc.) to create a new opportunity for companies exporting to the region and for foreign direct investments, if the framework is able to strengthen further cross-border transactions and promoting growth in the region. Fourth, any policy action to establish standardized procedures and the improvement of transparency, following the CMI will be accounted positively by economic stakeholders if it can reduce the costs and risks of investing assets in local currencies and lending to parties in the region. Third, stabilization of political situation as well as elimination of unfair protection and discrimination between local and international economic actors will make the region more conducive to the business environment (Blanchard 2002). From this point of view, it can be noticed that the prospect of the CMI will go hand-in-hand with the successful implementation of the economic cooperation covering the East Asia region to promote cross-borders trade and investment such as APEC and AFTA. As Sussangkarn (20002) suggests that the best strategy of the East Asian financial cooperation in the near future would have to be as a simultaneous effort to support the ongoing

economic integration (trade and investment) in the region.

### **The East Asian Surveillance Framework**

Regarding the possible constraints of the funding provision under the CMI, the most important precondition for effectiveness of the CMI mechanism to defend future speculative attacks is to institutionalize an independent surveillance unit in the region. Efforts to develop surveillance process are traceable, as the ASEAN Finance Ministers in Jakarta in February 1998, agreed to establish the ASEAN Surveillance Process. The main purpose of the surveillance process is to strengthen the capacity of policy makers within ASEAN in monitoring exchange rate and other macroeconomic aggregate that can potentially give a negative impact on macroeconomic stabilization of the region. The mechanism of the surveillance process is basically based on principles of peer reviews and mutual interests among the ASEAN country members (Rana 2002). The ASEAN surveillance process then has been expanded as the leaders of ASEAN countries invited Japan, Korea and PRC to form the ASEAN+3 group in November 1999 and the first peer review meeting under the ASEAN+3 Surveillance Process was carried out in May 2000 in which the purpose is basically similar to the ASEAN Surveillance Process (Rana 2002; Park 2003).



It is important to notice, however, that the recent achievement of such surveillance process of the ASEAN+3 group is still relatively weak for some reasons. As Wang and Woo (2002) point out that because the participating countries prefer mutual discretions over the contents of the report of their macroeconomic surveillances, serious difficulties arise in making a comparable assessment of macroeconomic situations across the country members. Second, as countries' reports tend to focus on recent economic development of the participating countries on voluntary basis, there has been insufficiency of valuable information exchange that enable to improve the regulation, supervision and integration of financial markets of the country members (Wang and Woo 2002 cited in Park 2003). Considering these issues, Park (2003) suggests two important prerequisites of the ASEAN+3 surveillance process. *First*, it is crucial for the ASEAN+3 group to establish an independent ASEAN+3 surveillance unit in order to effectively monitor and provide sufficient macroeconomic reports that are needed to prevent the future crises and sufficient credible inputs for credit-providing country in response to swap-requesting countries, ensuring the quick disbursement of funding facility to fight against speculative attacks and localized the possible contagious effects. *Second*, the country members should then supply not only usual macroeconomic information and

capital flows, but also information dealing with social and political economic resistances. Only by providing valid and viable socio-economic information, the surveillance reports resulting from the work of the surveillance unit would be a significant input for the discussion and delivering specific policy recommendations to member countries. It is important to notice that the policy recommendation shall be widely published so as to reinforce market pressures for the countries that do not take serious action with regard to the recommendation (Yoshitomi 2003).

From different perspectives, Sussangkarn (2002) argues that so long as there is little consensus on what might bring about a crisis among member countries, the effectiveness of the regional surveillances, including the ASEAN+3, Surveillance Process, would be doubtful in preventing the future crises. This would more likely be the case because a suspected-vulnerable country tends to repudiate that particular factors pointed out as being a signs of vulnerability for various reasons. Domestic political consideration also tends to encourage this as the government intends to give an impression of effective and good performance to its people. Therefore, Sussangkarn (2003) suggests an informal surveillance process carried out by non-governmental think tanks, institutions and scholars, who are more independent over the governments.



## The Asian Bond Market Development

Nowadays it has been widely acknowledged among East Asian economists that the root cause of the East Asian crisis of 1997/98 was the massive-sudden movement of the volatile short-term capitals (capital account crisis) rather than the relatively predictable "weak fundamental-induced-current account" disequilibria, which were mainly root causes of the non-Asian crisis countries<sup>3</sup> (Yoshitomi and Ohno 1999; Yoshitomi and Shirai 2000; Ito 2002; Rana 2002; Sussangkarn 2002; Park 2003; and Chaipravat 2003). This crisis was then exacerbated by major deterioration in financial institution and corporations' balance sheets which was caused by a "double mismatch problem" (maturity and currency mismatches), due mainly to the weak corporate governance, inappropriate and supervision regulation of the immature financial system. Considering the problems of short-term foreign debts and with regard to the high levels of saving surplus in most East Asian countries,<sup>4</sup> it is crucial for the region to de-

velop domestic capital markets in order to strengthen long term sources of funding investments, such as bond markets in the region.

Due to the growing demand on the development of Asian bond market, South Korea had decided to carry out a discussion focusing on the proposed development of a regional capital market under the ASEAN+3 Finance Ministers Meeting at the Informal ASEAN+3 Finance and Central Bank Deputies' Meeting in November 2002. One month later in December 2002, at the ASEAN+3 informal meeting, held in Chiang Mai, Thailand, Japan presented a substantive proposal for strengthening bond markets in Asian, namely Asian Bond Market Initiative (ABMI). In February 2003, a deeper discussion reviewing the proposal for the Asian bond market took place in Tokyo at the informal session of the ASEAN+3 Finance and Central Bank Deputies' Meeting. The member countries' discussions had brought

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<sup>3</sup>In the case of the Mexican crisis in the 1980s, the main cause was the large outstanding government short-term debts, namely *Tesabono* and in the 1990s crises of Mexico, Rusia, Argentina led strongly to the mismatch of massive government debt instruments, namely sovereign bonds, resulting from the fiscal indiscipline (Ito 2002).

<sup>4</sup>According to Sussangkarn (2002), the aggregate current account surplus of the

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East Asian region is approximately about US\$100 billion each year which has mostly been invested outside the region, mostly in USD and euro denominated assets, while the deficit countries of the region have to rely mostly on short-term risky borrowing, particularly bank-dominated loans. Hence if such surplus could be channelled to the long-term domestic investment such as the "Asian" bond, the requesting finance for a deficit facing country in the region would not rely primarily on short-term financing facilities (see also Rhee 2000; Batten and Kim 2001, Sussangkarn 2002; Park 2003; Rana 2002; and Chaipravat 2003).



about an agreement to form two voluntary groups of studies. The first group is to review proposals on schemes for creating new securitised debt instruments. Another group of studies focuses on promoting the use of credit guarantee mechanism for bond issuance. Furthermore, the voluntary working groups on the East Asian bond market development carried out their first meeting in Seoul on April 2003 which was co-chaired by South Korea and Thailand. The main achievement was that the country participants reached agreement that the progress report based on their discussion at the meeting would be submitted to the ASEAN+3 Finance and Central Bank Deputies' Meeting for the recognition (Park 2003).

It can be noticed, however, that the size of bond market in East Asia is still relatively small compared to that in developed countries, such as in the US and European countries. The total capitalization of the bond market in the countries of ASEAN-5 (Indonesia, Thailand, Singapore, Malaysia and the Philippines) plus PRC, Hong Kong, and Korea and Taipei-China accounted for just about 7% of that of the US. In terms of liquidity, the bond markets across East Asian are also relatively low. In the 1999 data the bond market in Hong Kong, China which provided the highest secondary market turnover ratio (which was about 20%), such a development was still much below

than that of in well developed bond markets such as Australia which was about of 52.5% (Fabella and Madhur 2003).

Regarding the relatively weak development of bond market in the East Asian region, Fabella and Madhur (2003) point out some policy recommendations to be delivered in strengthening the bond market development in region. *First*, continuous efforts should be addressed to sustain a stable macroeconomic condition with low inflation and stable interest rate across countries in the region, since high level of inflation and interest rates induce private sectors to take a short-term investment decision, lowering the demand on long-term investment financing. Similarly, under the fragile macroeconomic environment causes portfolio investors to prefer short-term 'safety' assets such as bank deposits and government treasury bills rather than long-term bonds. *Second*, with regard to the rapid development of the government bonds in the Asian-affected-crisis countries (Indonesia, Thailand and South Korea), strengthening the development of healthy government bonds is crucial as being a cornerstone for paving the way for the development of robust corporate bond market. *Third*, concerning the weak financial institution, the improvement of corporate governance and strengthening regulatory framework in the financial market are crucial for bond



market development. Corporate governance problems, such as a lack of transparency, weak protection of minority share holders and the absence of market disciplines are more likely to discourage the bond market development because these can create high uncertainty, due to an excessive risk-taking behavior of corporate bond issuer. *Fourth*, considering immature financial-investment institutions, such as pension funds, insurance companies and other saving institutions, privatization of government pension funds along with strengthening prudential regulation and transparent rule would be expected to increase their demand for corporate bond.

#### BEYOND CHIANG MAI INITIATIVE: A LONG-TERM ISSUE

The aftermath of the East Asian crisis of 1997, the question of which an appropriate exchange rate regime for the region has emerged among economists as well as the policy makers within and outside the region. This issue has brought into debates as some argue that countries in the region should necessarily tie themselves and work together in unity to achieve effective cooperative surveillance in preventing the recurrence of crises in the future. On the other hand, considering the wide diversity among the East Asia, economies, some also argue that unifying regional attempts through establishing a monetary union would

still be far away to go. Institutionalizing the regional financial provision framework, such as the AMF has been suspected to raise moral hazard problems, undermining the global effort.

Considering the issues of establishment of a common currency in the East Asian region, some official efforts have been made as for instance, in the ASEAN Task Force on the ASEAN Currency and Exchange Rate Mechanism and the official supports have been given by Asian-Europe Finance Ministers for a large number of studies under the Kobe Research Projects. Continuing efforts have also been done by the ADB, such as a Study on Monetary and Financial Cooperation in East Asia covering transitional regional exchange rate arrangement and coordination mechanism for the region (Rana 2002). In response to this issue, some studies have been done to analyze the importance of prerequisite conditions for the development of a common currency. Goto (2002) points out that the interdependence of trade and investment<sup>5</sup> across East Asian countries increased substantially in particular since the 1990s. The international mobility of goods and labors has also increased

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<sup>5</sup>The possible impact of the East Asian monetary union on foreign direct investment will however, be different among the country members. While PRC will continuously be the most beneficial country, the ASEAN countries may suffer a net loss of FDI (Fabella 2002).



markedly, although the presence of the Asian monetary crisis of 1997 was a major setback to the closer integration of the economies in the region, supporting the plausibility of the interregional monetary unification.<sup>6</sup> This study also confirms that the real macroeconomic disturbance of the subset of the East Asian countries (Indonesia, Malaysia, South Korea, Singapore and Thailand) was symmetrical to that of their main trading partners (Japan and the Europe), but negatively correlated with the US. This finding supports the development of such a monetary arrangement of The East Asian region and the currency arrangement of pegging a basket of major currency (the Euro and Japanese yen) would be more favorable than the hard pegged USD. However, Ito and Ogawa (2000) conclude that the common currency of the East Asian region of pegging the triangular currencies of the USD, Japanese yen and the Euro is desirable in promoting intraregional trade and investment across the East Asian countries (see also Chaipravat 2002; Rose 2000).

Understandably, the development of a common currency would pave a certain way for greater cross-border trade and investment within the region and, hence, increase income growth for the regional countries. However, for the East Asian countries of the region to adopt a common cur-

rency is still regionally hampered by some factors. The *first* factor is wide diversities in the economic achievements<sup>7</sup> across countries in the region, from the richest countries of Japan and Singapore to the poorest countries, such as Myanmar and Indonesia. The per capita income of Indonesia is just one-fourth of Singapore (Singapore is 300 times larger than that of Myanmar). For some reasons, however, these wide diversities would not be a serious problem since the countries have comovement of relative price and output following an economic shock (Madhur 2002). *Second*, in a condition of the weak banking and financial institution of the East Asian region and their dependence heavily on foreign capitals, applying a fixed or pegged exchange rate system will likely tend to give rise the vulnerability toward currency crises. Therefore, the weak banking and financial institution will undermine an exchange rate arrangement for the region (Eichengreen and Bouyomi 1999). *Third*, insufficient funding provision of the East Asian under the CMI will also be a substantial constraint for the region to adopt a common currency. With regards to the European experiences in setting up the required multilateral institution (e.g., European

<sup>6</sup>Similar findings can be referred also to Goto and Hamada (1994); Kawai and Takagi (2001) Bayoumi and Mauro (1999).

<sup>7</sup>Fabella (2002) points out the main obstacle for forming a monetary union in the East Asia is not only the wide diversity of level of economic development but also the diversity in religion, language, political system and the maturity level of financial system (see also Chino 2002).



Council, European Commission and European Central Bank) for managing funding provision of the region, the development of a common currency for the East Asian region is, therefore, required to develop the independent multilateral institutions to support regional monetary institution, as well as serious efforts to raise substantially reserve pooling and sharing for the region (Madhur 2002).

*Fourth*, most importantly, although convincing arguments shows the suitability of economic precondition for the development of a common currency of East Asian region, the political pre-condition has not yet been addressed deeply to build a necessary condition of the common currency (Eichengreen and Bayoumi 1999; Bayoumi, Eichengreen and Mauro 2000). Regarding the European experiences in which deep discussions on political integration have been carried out hand-in-hand with the European monetary integration. Although the political cooperation of ASEAN has been well established, the nature of voluntary basis of such cooperation seems inadequate to meet a necessary political precondition for the development of the common currency in the region.

## CONCLUSION

Considering the failure of the Asian Monetary Fund (the AMF), the monetary cooperation within ASEAN and

other East Asian countries (Japan, South Korea and PRC) has begun to show a new phase of development, following the so-called Chiang Mai Initiative. Under such a monetary cooperation, significant efforts have been made in particular to prevent the recurrence of currency and financial crises in the future Asia. The expansion of ASEAN Swap and repurchase arrangements to include Japan, South Korea and PRC; the establishment of surveillance process mechanism; and the development of Asian bond market, can be seen as a serious political will of East Asian countries to work closely together on financial matters for the interest of the region as a whole. Beyond questioning the effectiveness of the ongoing achievement of the Asian monetary cooperation, the CMI is a very important step to prevent the recurrence of currency crises in the region. This cooperation is crucial not only as means of crisis prevention but also for building the reliance of the regional self-help (support) mechanism and management, once currency crises occur in the future. Such regional self-reliance is strengthened further by strong criticisms against the failed presumption of the IMF support program on handling the currency crisis in 1997/98. Another factor is related to the building up of the foreign reserves of the East Asian countries and the achievement of their current account surplus in the recent years.

However, referring to the large amount of funding to overcome the crisis of 1997/98, it seems that the resources provision under the Chiang Mai Initiative may be far from sufficient for crises prevention and management mechanism for the region. Under this circumstance, the effective monitoring system capable of identifying short-term capital inflows/outflows is crucial for preventing the future crisis in the region. Therefore, without adequate framework for exchange information on short-term capital mobility in each country of the region, any regional effort on identifying the fragile capital flows to prevent and to react to the possible recurrence of currency crises will be ineffective. For this reason, enhancing surveillance process mechanism of the region is crucial for the prospect of the Asian monetary cooperation.

As a consequence of the bank-dominated financial system and the lack of access on long-term sources for financing of corporate sectors of the East Asian region, this region is very likely to be vulnerable on the macroeconomic disturbances. Considering this, the development of long term sources of portfolio investments is at core of tapping the saving surplus of the region that was mostly invested in long-term assets outside the region. However, the challenge particularly lies in the lack of sufficient market infrastructure in most countries of the

region; the wide differences in regulation; as well as the lack of experience on dealing with bond markets of most countries in the region. Considering the ongoing efforts on raising initial funds for the government bond market development, the US\$1 billion amount of such funds is very small compared to the size of funds capitalized in bond markets of the region. Finally, the recent development of the Asian monetary cooperation also covers the possibility of the East Asian region to develop the European version of currency unification for the Asian region. Given the suitability of the Asian region for such currency unification, this issue should be placed as a long-term target of the Asian monetary cooperation. The wide diversity among the East Asian countries in terms of economic and development achievement, the lack of formal institutional infrastructure whose main objective is to promote monetary integration, will be the main challenges for the region to develop the currency unification like the Euro.

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## **TENGARA ORDE BARU:** **Kisah Harry Tjan Silalahi** (Indicating the New Order: The Story of Harry Tjan Silalahi)

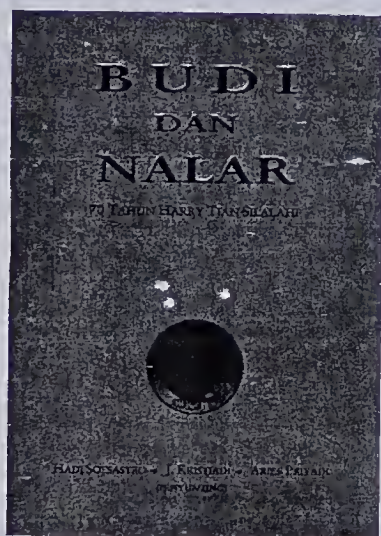
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During the period of New Order under Soeharto's leadership many events had taken place, affecting and shaping a number of today's paradoxes. Born as an Indonesian, Harry Tjan Silalahi had witnessed the beginning as well as the ending of the New Order. Therefore, he

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Harry Tjan Silalahi is widely known to have great interests in society and nation-state issues. He is also known as a politician of the '60s generation. Even though during the period of the New Order he was not directly involved in the political arena, yet people always refer to him, asking for his opinions.

The book, written in Indonesian, contains 70 essays presented by his colleagues. Those essays are organized into three main parts. Part I and Part II describe his personality, outlook, and struggle with regard to his political life. Some 36 articles on current national and international issues are presented in Part III. The publication of this book is particularly dedicated to Harry Tjan Silalahi in celebrating his 70<sup>th</sup> birthday, and it is also intended to express CSIS' respects and gratitudes to him as one of the founders of CSIS.

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### Mengenang Ali Moertopo dalam Bakti dan Karyanya

(Recalling Ali Moertopo in His Dedication and Works)

*Published by:* CSIS, Jakarta. 2004. 1st Ed, viii + 40 pp; 19.5 x 27 cm. IDR 15,000.00

This volume (in Indonesian version) presents some articles on: (1) Ali Moertopo's Contribution to the Nation and State, written by Jusuf Wanandi; (2) Finding Out An Authenticity: Notes on Ali Moertopo's Political Thinking, written by Indra J. Piliang; and, (3) Tracing Ali Moertopo's Economic Thinking, written by Ari A. Perdana. The Introduction part is written by Harry Tjan Silalahi and Harris Ali Moerfi.

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